

## FINANCIAL TIMES

ROMANIA

Bad old ways spoil  
new-style politics

Page 3

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Tuesday October 23 1990

World News Business Summary

Saddam to  
release some  
US and UK  
hostages

President Saddam Hussein of Iraq agreed to release several male US and UK hostages and raised the prospect of freeing all French nationals being used as human shields. Page 22

## Big Bhutto welcome

Despite being denied access to Lahore's main rally sites, sacked Pakistani prime minister Benazir Bhutto made a triumphal entry into Lahore. At least 100,000 people turned out to welcome her. Photograph. Page 4

## EC lifts sanctions

European Community foreign ministers agreed to end sanctions on China and Iran, but the UK blocked moves to lift Syrian restrictions. Page 22

## Anger at Bush veto

President George Bush, in a move which will anger black groups and women, plans to veto a civil rights bill making it easier for workers to win discrimination cases. Page 6

## Moro daughter quits

The daughter of Italy's murdered ex-premier Aldo Moro said she was resigning from the ruling Christian Democrats in protest at its refusal to save her father while he was held hostage by terrorists. Page 22

## Surrogate losses

A judge at Santa Ana, California, ruled that a surrogate mother, Anne Johnson, 29, has no parental rights to a baby she carried for an infertile couple. She had been paid \$10,000. Page 22

## Philippines murder

Four gunmen murdered under-vice Philippine labour leader Oscar Lezama, 53, and communist hit-squad said they would not allow interference with tomorrow's general strike. Page 22

## Egypt opens tombs

Egypt opened the tombs of nobles, high officials and ancient royalty, allowing a glimpse into their past and the first time since antiquities were unearthed there a century ago. Page 22

## US pays the dues

US has paid \$400 toward its delinquent UN dues of over \$500m, giving the world body enough cash to keep operating through November. UN officials announced. Page 22

## Links broken

Kenya said it was breaking off diplomatic relations with Norway following a bitter row over the activities of Kenyan dissidents. Page 4

## Shamir survives

Israeli prime minister Yitzhak Shamir barely defeated a no-confidence motion in parliament over his policies since forming a right-wing government four months ago. The vote was 55 to 51. Page 22

## Princesses barred

Princess Anne, daughter of England's Queen Elizabeth, was fined a total of £150 and banned from driving for one month by magistrates in Gloucestershire after she admitted two speeding offences. Page 22

## Mozambique change

Mozambique parliament unanimously approved a change in the new constitution recognising specifically for the first time the role of market forces in the economy. Page 4

## Japan upsets China

Taiwan and China both denounced Japan for repelling a Taiwanese group from the Diaoyutai islands over which all three claim sovereignty. Page 4

## Sanity test

An Indian district judge threw out a petition to compel Prime Minister V.P. Singh to undergo a mental examination under the Lunacy Act. The lawyer bringing the case sought to call the premier's wife as witness. Temple crisis. Page 4

Philips and  
Du Pont to  
end compact  
disc venture

Philips of the Netherlands and Du Pont of the US are to end their four-year-old joint venture for the manufacture of compact discs and professional disc operations. Philips will acquire the consumer side of the business and both partners will dispose of the venture's professional disc operations. Page 22

Philips intends to sell parts of the consumer disc operation to PolyGram, its London-based, 30 per cent-owned recorded music subsidiary. Page 22

MARKETS: Lower oil prices did not sustain their appeal, as the more sombre Monday morning mood in New York was anticipated on the continent. In Frankfurt, the DAX index closed 7.58 lower at 1,745.1 after the FAZ eased 0.30 to 624.85 at mid-session. In Tokyo, the Nikkei closed at 25,070.85, up 589.37. Back Page, Section II

EUROPEAN economic and monetary union (Emu): speculation over the date for starting was heightened after a meeting of EC foreign ministers in Luxembourg. Page 22

TIME Warner, debt-laden media and entertainment conglomerate that controls Time Magazine and Warner Brothers in Hollywood, travelled a \$31m third quarter loss, against a two-firm loss of \$124m last time. Page 22

EUROPEAN Community plans to provide substantial short-term financial aid to the Soviet Union agreed to reduce further in Luxembourg. Page 22

LUCAS Industries, UK automotive, is to invest £150m (£200m) over the next five years on manufacturing plant in France, Spain and the UK for diesel engine injection systems. Page 22

HUNGARIAN officials have moved to quell growing speculation that the country will see a financial crisis when it is forced to turn to the world market for oil from next January. Page 22

URUGUAY Round talks on the liberalisation of the \$600m-a-year world trade in services has moved into a decisive phase. Page 22

UNION Carbide, US chemicals group, suffered a 25 per cent drop in third quarter net income on increasing oil prices in the wake of the Gulf crisis. Page 22

ALGERIAN authorities are to press ahead with a programme under which they will provide collateral to encourage international banks to grant it new loans. Page 4

INCO, world's leading nickel producer, was hit by lower nickel prices which pushed earnings down by almost a quarter in the three months to September 30. Page 22

SOUTH Korea's economy will grow by almost 9 per cent this year in real terms despite the impact of the Gulf crisis, the governor of its central bank forecast. Page 4

VENEZUELA has agreed to stretch over four decades the repayment period for long-overdue Nicaraguan oil debts. Page 6

COOKSON, heavily indebted UK industrial materials group, has agreed to sell its 50 per cent stake in ICI, the pigments manufacturer, to ICI, its partner in the joint venture, for £160m (£315.2m). Page 22

ABCO, Los Angeles-based oil and gas company, reported essentially unchanged third quarter net earnings of \$82m. Page 22

EGYPTIAN authorities have approved a \$600m takeover of the ailing al-Bayan investment company whose owners were accused of defrauding its investors of \$716m. Page 22

Economics minister leads attack by Bonn government on group's autumn report

German economic  
research institutes  
'too pessimistic'

By David Goodhart in Bonn

THE German government yesterday took the unusual step of criticising the autumn report of the country's five leading economic research institutes as "too pessimistic".

The attack was led by Mr Helmut Haussmann, economics minister, who predicts all-German economic growth next year of 2.5 per cent to 3 per cent compared with the institutes' more pessimistic forecast of 1.5 per cent.

The trade unions and the opposition Social Democrats immediately tried to use the pessimistic tone of the report and several specific criticisms of government policy to embarrass the centre-right coalition. But the government said it is a faster turnaround in eastern Germany, a central part of its

electoral appeal in East Germany, was backed by the Federation of German Industry.

In their report published yesterday, the institutes also predicted that inflation next year will rise to 4 per cent from 2.5 per cent this year. The number of unemployed is likely to reach about 3.4m, or 10 per cent of the workforce, despite the creation of 500,000 new jobs in the western part of the country.

The jobless figure in east Germany will rise to 1.4m, in addition to which 1.75m people will be on short-time working.

The cash needed to pay for this east German unemployment will rise from about DM100m (£64.60m) this year to DM300m next year, the five institutes say. The overall inte-

gration of East Germany, excluding the budget of the Treuhand privatisation agency, will require DM700m in extra borrowing this year and DM600m next year. The overall public sector deficit will be DM100m this year and at least DM120m next year.

Dividing the country along its former lines, the institutes are predicting a fall in West German GNP growth from this year's 4 per cent to 2.5 per cent and an absolute fall in East German GNP of 16 per cent this year and a further 10 per cent next year. They say the low point of eastern Germany's economy has not yet been reached, but the turnaround should begin next summer.

The east German economy is not yet fulfilling its promise as



Economics minister Helmut Haussmann: attacking pessimists

the bridge to the former East bloc and has lost most of its east European orders as well as 50 per cent of its domestic consumer goods market.

A separate report from the Bundesbank says that eastern Germany's industrial production fell 51 per cent in August compared with last year.

The institutes admit that they underestimated the costs of German unity and overestimated the willingness of private capital to invest in eastern Germany. They now predict that only DM50m of private capital will be invested this year, rising to DM150m, or 20 per cent of total investment, next year.

They reject tax increases as

a means of paying for unity but say that savings of between DM200m and DM300m could be made swiftly by cutting western Germany's regional subsidies and defence spending.

The institutes are implicitly critical of rapid wage increases in eastern Germany, which have damaged its attractiveness as an investment site, and also of the Bonn government's recent decision to raise pensions by 15 per cent.

The government's instructions to the Treuhand are also criticised for laying too much stress on restructuring enterprises before privatising them.

Continued on Page 22

Saudi hints at need for  
Kuwaiti land concessions

By Victor Mallet in Doha

PRINCE Sultan bin Abdul-Aziz, the Saudi Arabian defence minister and brother of King Fahd, has hinted that Kuwait ought to consider making territorial concessions to Iraq if Baghdad withdraws troops from Kuwaiti territory.

The conciliatory tone of his remarks, made to Arab journalists in Riyadh on Sunday, has alarmed the Kuwaiti government in exile.

It has also surprised the US and other western countries. In Washington, Prince Bandar, the Saudi ambassador, was called in to explain the defence minister's statement. The White House said Prince Bandar had assured the US that there was no change in Saudi policy demanding the withdrawal of Iraqi forces from Kuwait.

Since Iraq's invasion of Kuwait, Saudi Arabia has been among the most hawkish of Arab governments in demanding an unconditional withdrawal. However, of all the Saudi royal family, Prince Sultan has been the most anxious to avoid war.

"The Arab countries are ready to give Iraq all its

rights," Prince Sultan was quoted as saying. "Any Arab who has a claim on his brother should take it by understanding, not force."

In September he surprised Saudi Arabia's allies by saying the kingdom would not be used as a launching pad for an attack on Iraq's forces. Referring on Sunday to Iraq's claim to Kuwaiti islands at the head of the Gulf, he said Saudi Arabia saw "no harm in any Arab country giving the Arab islands a site or a position on the sea."

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World  
crude oil  
prices fall  
steeplyBy Steven Butler  
in London

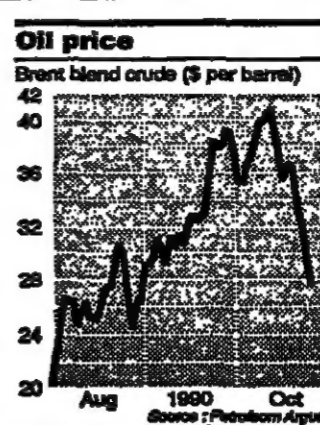
WORLD crude oil prices fell steeply yesterday - to below \$30 a barrel for the first time in six weeks - as traders concluded that prospects for a peaceful resolution to the Gulf crisis appear to have improved.

Airlines and chemicals companies, whose businesses have been hit badly by rising fuel and feedstock costs, stand to benefit most. Jet fuel, recently quoted at more than \$600 a tonne, was yesterday trading at about \$385 a tonne, down \$40 on the day. Naptha, a chemical feedstock, was off \$45 a tonne at \$270.

The markets fell in the morning when Prince Sultan bin Abdul Aziz, the Saudi defence minister, was reported to have opened the door to negotiations over Iraq's territorial demands after an eventual withdrawal from Kuwait.

The efforts of Mr Edward Heath, the former British prime minister, to gain the release of hostages was also interpreted as a hopeful sign.

Traders said that the dispa-



tion of "war psychology" lay behind yesterday's heavy declines, but added that crude oil was in abundant supply.

"We've been concerned for some weeks that the underlying fundamentals of crude were very soft," said the head of one large trading operation. Dislocations in the market - when buyers found themselves without Kuwaiti and Iraqi supplies - had been worked through the system.

North Sea Brent crude oil for December delivery closed down \$5.50 at \$29.65 a barrel in European trading. At the New York Mercantile Exchange, November futures for the West Texas Intermediate were off \$4.29 a barrel at \$29.50 at midday. The Egyptian government cut the benchmark Suez blend by \$6 to \$26 a barrel.

Commodities, Page 33

Banco di Roma takeover set to  
create country's biggest bank

By Haig Simonian in Milan

ITALY'S second biggest savings bank, the Cassa di Risparmio di Roma, is negotiating to take over Banco di Roma, one of three state-owned "banks of national interest", in a deal which would create the country's biggest bank.

Talks have reached an advanced stage. The transaction, which was announced by the end of this month, will represent the biggest leap to date in the rationalisation of the Italian banking sector.

It would also mark a step in the partial privatisation of Italy's banking sector. IRI, the state holding company which currently owns 81 per cent of Banco di Roma, is expected only to take a minority stake in the new venture, although the majority of its shares would still be publicly-owned.

The merged banks will create a powerful force in central Italy, where they are likely to hold immense influence over the local deposit market. Cassa di Risparmio di Roma is already planning to buy out the remaining 49 per cent stake in Banco di Santo Spirito,

another regional bank in central Italy, which it does not already own.

Observers say support for the Rome Cassa, which will subsequently trade under the Banco di Santo Spirito name, to take over Banco di Roma, is running very high. Initial political indications are believed to be favourable, while the Bank of Italy has given strong support. However, reaction at Banco di Roma, the weakest of the three "banks of national interest", may be less warm.

As matters stand, Cassa di Risparmio di Roma is Italy's 13th biggest bank, with \$25.4bn in total assets, while Banco di Santo Spirito ranks 17th, with assets of \$20.6bn. Buying Banco di Roma would put the combined institutions just ahead of Istituto Bancario San Paolo di Torino, which is currently Italy's biggest bank. It is not yet clear what effect the transaction would have on Banco Hispano Americano and Commerzbank, the Spanish and German partner banks of Banco di Roma, which have long been nursing ambitions of

buying into its capital.

A three-way link between the Rome Cassa, Santo Spirito and Banco di Roma has been criticised on the grounds that the resulting institution will have too dominant a position in central Italy and inadequate representation elsewhere.

However, supporters of the deal argue that a "super-regional" bank will be able to maximise profitability through its sway over the local deposit market, while the inclusion of Banco di Roma will add an element of international coverage which the two other banks lack.

In any event, the new bank, which will probably not be created until well into next year at the earliest, will require a hefty rationalisation period to avoid flagrant duplication of branches.

However, the new bank is not expected to allow much room for encroachment by outsiders. It may even maintain some element of duplication by keeping alive both names names and possibly trading under two distinct brands.

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Italy's president tries to rise  
above the party fray

Italian president Francesco Cossiga visits London today. The Christian Democrat politician has acquired a greater public role and authority by trying to act as a non-partisan guardian of the country's constitution. Page 5

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## MARKETS

STERLING	DOLLAR	STOCK INDEXES
New York close	New York close	FT-SE 100
\$1.9425 (1.9395)	DM1.5105 (1.5015)	2,102 (+13.0)
London:	FF4.0815 (5.0275)	FT Ordinary:
\$1.9490 (1.9395)	SF1.2835 (1.267)	1,633.6 (+12.1)
DM2.3550 (2.345)	Y125.975 (125.95)	FT-A All-Share:
FF9.8200 (9.815)	1,015.13 (+0.5%)	New York close
SF2.4050 (2.4075)	DM1.5100 (1.5025)	DJ Ind. Av.
Y245.50 (245.75)	FF4.0750 (5.035)	2,518.08 (-4.70)
£ index 94.4 (94.5)	Y125.00 (125.9)	S&P Comp
Gold	\$ index 80.4 (80.2)	314.76 (+2.28)
New York Comex Dec	Tokyo close: Y125.25	Tokyo Nikkei
\$372.4 (376.8)	US closing rates	25,070.85 (+589.37)
London:	Fed Funds 7.3% (7.3)	LONDON MONEY
\$28.25 (372.5)	3-mo Treasury Bill:	3-month interbank:
N SEA OIL (Argus)	yield: 7.45% (7.444)	closing 13.2% (13.1)
Brant 15-day	Long Bond:	Libor 3m 6m future
\$25.65 (32.15)	90% (89.1)	Dec 84-2 (89.1)
Crude prices change	yield: 8.742% (8.75)	
yesterday: Page 22		

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EUROPEAN NEWS

# French nuclear sights still trained on Soviet Union

By Ian Davidson in Paris

MR MICHEL ROCARD, the French prime minister, yesterday named the Soviet Union as a primary reason for France's continued reliance on nuclear deterrence.

In a surprisingly explicit speech to the Institute for National Defence Studies, he called for the development of a European defence policy and for nuclear co-operation between France and Britain.

He argued that stability came from the reciprocity of deterrence, and pointed out that "the USSR remains a considerable military power, especially in nuclear terms".

The possibility of Franco-British co-operation in the nuclear field is likely to be discussed in London today at a regular meeting between the two defence ministers. In particular, the British government is considering whether to adopt the planned French ASLP long-range

air-launched nuclear missile, as a replacement for its ageing gravity nuclear bombs.

The ASLP project is a central element in the choice of the next generation of French strategic nuclear weapons. This is now scheduled to be taken before the end of the year, and will include the elimination of one leg of its strategic nuclear triad.

The choice lies between the development of a new generation of S4 land-based missiles to replace the 18 SS ballistic air-launched missiles in southern France, or the go-ahead for the ASLP 1,200km-range missile, as a replacement for the medium-range ASMP missile.

The third leg of the French nuclear triad, the submarine-launched ballistic missiles, will continue to be improved, with more modern missiles and a new generation of submarines. The

maintenance of a triad is ruled out on grounds of cost, so a choice must be made between the other two legs.

In principle the French choice could be influenced by the parallel option being weighed by the British government. The UK is not expected to reach a decision in time to influence the French choice, however.

The ASLP (air-sol longue portée) air-launched missile has been under serious discussion between France and Britain as a possible candidate for joint development since the middle of last year.

A British decision in favour of the ASLP would be a major plus for the project. But French officials assert that the French choice will not be dependent on a British decision, and they evidently do not expect that the British government will make up its mind in time to weigh in the French decision.

# Crime prevention in the market poses problems for Soviet police

By Quentin Peel in Moscow

FACED WITH a soaring crime wave, and demoralised security services, the Soviet Union's law and order chiefs are only just beginning to face up to the awesome additional prospect of crime prevention in a market economy.

The problem is that the transition to a market system, finally approved last week by the Supreme Soviet, the national parliament, has far wider implications than simply learning new ways of doing business. It means a rethink of the entire basis of what is glibly called "economic crime" in the Soviet Union.

For years, "speculation" has been a grievous crime in the Soviet system. It means buying something at fixed state prices, and reselling it at a profit. In the market economy, speculation is likely to become normal business practice.

Yesterday the most powerful men in the security services, including Mr Vladimir Kryuchkov, the head of the KGB, the state security committee, and Mr Vadim Bakatin, the interior minister, tried to tackle the issue at a press conference on crime-fighting. The end result was almost total confusion both about what they think they are fighting, and how they are going about it.

Mr Kryuchkov certainly saw matters more simply than his colleagues, blaming the explosion of crime on the streets, and the equally rapid growth of a black market economy, above all on a surge in organised crime. He then went further, and charged that joint ventures, laboriously negotiated between Soviet and western partners to attract foreign investment, were actually milking the economy of "billions of roubles," apparently in criminal ways.



Kryuchkov: naming the guilty parties

"Organised crime has assumed a scale we could never have predicted a couple of years ago," Mr Kryuchkov said, conscious that his own organisation has found a new lease of life, since it was retrained in persecuting political dissidents, in pursuing exactly these sort of criminals.

"These gangs are operating with criminals from other countries. The problem is the appearance of rather stable gangs who have contact with the shadow economy."

Joint ventures seemed to be part of the problem in Mr Kryuchkov's eyes. "We are young businessmen. We lack experience," he said. "Our companies don't have their own intelligence and counter-intelligence."

"But we've got to come to grips with them (joint ventures) because our state suffers great losses. You just cannot imagine how much. I estimate the damage running into billions of roubles."

Yet even Mr Kryuchkov admitted that the problem of how the security services operated in conditions of a market economy was "immensely difficult."

Mr Vladimir Yakovlev, the justice minister, was more specific.

Western businessmen regarded "speculation" as normal business practice. "Our criminal code stipulates something as criminal which is perfectly normal in a normal economy," he said.

Moving to a market economy meant that the relevant laws must be repealed. But in the meantime, he declared, anyone guilty of speculation was no better than "a robber," and should be prosecuted with the full force of the law.

Mr Bakatin sought to calm the situation. "Of course crimes are growing, and they may continue to increase for some time. But a market economy provides normal conditions for a normal society. We shouldn't frighten poor people with what it means."

On the other hand, he was equally determined that people with illegitimate incomes should not profit from the transition to a market. He called for a tough financial inspection service, and mandatory declarations of profits, to stop illegal money laundering through the corrupt Soviet system.

All of which left the audience in some confusion as to who were the criminals, what was a crime, and what the services of law and order intended to do about it.

Mr Gorbachev urged restive miners to support the government as it tried to carry out the transition to a market economy, Easter adds from Moscow.

Tass news agency said Mr Gorbachev called on Soviet miners "at this crucial time to display goodwill and support government measures to normalise the situation in the country, switch the economy to a market system and improve living standards."

Mr Gorbachev made his appeal in a message to miners' representatives in the Ukrainian mining city Donetsk. The miners, many of whom took part in a nationwide strike in July 1989 to demand more money and greater autonomy, will discuss the formation of a national union to protect their interests and the switch to a market economy.

# Moscow expects further fall in oil output

THIS Soviet Union's declining oil output will show another drop in 1991, Mr Artem Troitskiy, deputy chairman of Gosplan, the state planning commission, said yesterday, Reuters reports from Moscow.

Official figures released last week showed production dropped 23.6m tonnes to 428m in the first nine months of this year compared with the same period of 1989. Exports of crude fell 6.3m tonnes.

Mr Troitskiy said only massive amounts of new investment in the oil industry could avert continuing production declines. Producers were having difficulties developing new fields because deliveries of equipment were sporadic. Many fields were producing less than anticipated, he said. "We don't think this situation will change in the near future," Mr Troitskiy said.

In an attempt to stimulate oil production, the government had decided to pay oil producers hard currency for any output which exceeded planned targets, Mr Troitskiy said.

# Mayor attacked over Dresden march

The mayor of Dresden was widely condemned yesterday for permitting a neo-Nazi march through the city centre in which about 500 demonstrators shouted racist slogans and made Hitler salutes, Reuters reports from Berlin.

Jewish leaders, wary of resurgent nationalism in the new united Germany, said democratic tolerance had gone too far. Outraged locals in Dresden called the march a scandal.

"This neo-Nazi rally... has overstepped the limits of democratic tolerance," the leader of Germany's Jewish community, Mr Heinz Galinski, said in a statement.

The demonstrators marched through Dresden to the city centre on Saturday afternoon, shouting "foreigners out" and "Deutschland ueber alles" ("Germany supreme").

The marchers waved imperial German flags and demanded a return to Germany's Nazi-era borders, including large chunks of present-day Poland, Czechoslovakia and the Soviet Union.

# EC downgrades Moscow aid

By Tim Dickson

PROSPECTS of the European Community providing substantial short-term financial aid to the Soviet Union appeared to recede further in Luxembourg yesterday.

EC foreign ministers held a brief discussion on the issue but it now seems likely that no radical decisions will be taken at next week's special EC summit in Rome.

Help for the Soviet Union was at one stage to have been the main item on the agenda, following instructions to the European Commission by heads of government at the

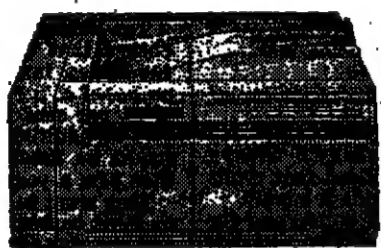
Dublin summit in June. But there seems to be a growing consensus that the Soviet Union is too politically volatile and too poorly served by reliable statistics to qualify for a large scale bail-out at the moment.

There was talk yesterday of a more focused programme, with support for specific projects, including infrastructure, involving the private sector as far as possible.

The foreign ministers, however, did achieve one tangible result yesterday by finally signing a trade and

economic co-operation agreement with Romania. This had been prepared in time for the EC general affairs council in June but was postponed in the light of the brutal suppression of political dissent in Bucharest that month.

The EC has decided that the time is now right to go ahead with the accord - which offers trade concessions on Romanian goods - due to the release of those detained in the June disturbances, the readmission of the International Red Cross and the government's wide ranging proposals for economic reform.



The first thing you'll notice about the new Brother HL-4 laser printer is its size. It's very small. But what's more remarkable is how much the HL-4 packs into such a compact design. For instance, it has data compression technology which means you can print a full

A4 page of graphics using only the internal 512k memory (expandable to 4.5Mb). It boasts an extremely user friendly instrument panel which gives you fast access (via the LCD display) to all the impressive printer features. These include five popular printer emulations so it's computer-friendly too. As well as five resident fonts, you'll find it has the option of two scalable fonts. And like its physical dimensions, the HL-4 has a very small price. So for a

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# Madrid under pressure to protect nature reserve

By Peter Bruce in Madrid

PLANS for a \$100m tourist development next to Europe's largest nature reserve, the Doñana National Park in southern Spain, have suffered a setback following last minute pressure on the local council from Madrid.

Spain's socialist government is believed to have pressured socialist councillors in the town of Almonte not to attend a special council meeting called on Saturday to give planning permission for the project.

Only nine of 17 socialist councillors attended, depriving the council of a majority necessary to approve it.

Madrid is under intense international pressure to save Doñana, a 700 sq km dune and marshland on the Guadalquivir estuary in Andalusia.

Ecologists at the EC, which is threatening court action

against Madrid, accuse Spain of allowing an existing development - Mata Lascana - and a 12,000 hectare irrigation project nearby to indiscriminately drain Doñana's own subterranean water reserves, which are the lifeblood of the park.

Water levels under the Doñana have fallen dramatically in the last five years and successive socialist governments in Andalusia have turned a blind eye to protest in order to protect powerful farming and property interests in the region.

Doñana is the half way house to most of the birds which migrate every year between western Europe and Africa. Three years ago pesticides released into the park's water system by neighbouring farmers killed at least 30,000 birds.

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## Hungary seeks to calm fears of financial crisis

By Nicholas Denton in Budapest

HUNGARIAN officials have moved to quell growing speculation that the country will face a financial crisis when it is forced to turn to the world market for all next January.

"There is no question of rescheduling," said Mr Ferenc Nahai, the finance minister.

Fears of payments problems have arisen as it becomes apparent that the oil price rise and the introduction of world market prices in trade with the Soviet Union, Hungary's main energy supplier, will push the country's current account deep into deficit next year.

Hungary will need to finance a current account deficit of \$1.5bn in 1991, according to finance ministry projections, in addition to \$2.2bn of repayments on the country's \$20bn foreign debt, the highest per capita in eastern Europe.

"Taking everything into account, I am not confident

that Hungary can remain current on debt payments," a senior UK bank economist told Reuters news agency last week. Hungary's respected Economic Research Institute has also warned of a threat to liquidity.

Hungarian national bank officials worry privately that the government's projected deficit cannot be financed, but they are still adamant that there will be no rescheduling. Mr Imre Taras, first deputy president of the bank, said that if financing could not be found for the \$1.5bn deficit, then the deficit would have to be reduced. "We are not the kind of country of bank to ask for debt rescheduling."

National bank plans call for \$1.2bn of credits in 1991 from international monetary organisations and the EC, and for the remainder of financing needs to be covered by turning to the capital markets.

## Bad old ways spoil new-style Romanian politics

Deep distrust, nationalism and an immovable bureaucracy are the real enemies, writes Judy Dempsey

ATTEMPTS by Romania's government to implement a radical economic reform programme aimed at paving the way for the market economy are being blocked by a fragile political system, nationalist propaganda and a conservative bureaucracy.

The structures are fragile because the government must start from scratch in building social, economic and political institutions which were destroyed after 40 years of communist rule.

To compound the problems, Mr Petre Roman, the prime minister, is confronted with a society riven with distrust, lies and suspicion, features which are partly a hangover of the Ceausescu era.

But when critics today challenge the country's authoritarian political traditions as a means of explaining the difficulties in establishing democratic structures, they are denounced as "enemies."

The nationalist and extreme right-wing media blame the "enemy" - which includes freemasons, Jews, the foreign press and the Hungarians - for the country's economic difficulties.

In the Romania Mare, a far right-wing weekly, many of these allegations are spearheaded by Mr Eugen

Barbu. As one of Ceausescu's chief propagandists, he poured vitriol on, among others, the Jews. Today, he is one of the editors of Romania Mare, which has a circulation of over 800,000. Unlike many other newspapers, it suffers no shortage of paper.

Thus, as the economy deteriorates, the need for scapegoats continues unabated, and with it, rumour and fear.

"In the past, we knew the rules of the game," said Mr Anton Ursu, the editor of Romania Libera, a liberal newspaper. He was imprisoned by Ceausescu in 1989 after he tried to set up an opposition newspaper. "We do not know whom to fear today. The fear is never personalised. Basic instincts are coming to the surface. The golden (hoofbeats), the fascists, the black marketeers, the freemasons are all blamed for the economic crisis. This impersonalised fear turns into hatred and division," he said.

Despite the vacillation between instability and authoritarianism, Mr Roman says his government is genuinely committed to building democracy.

"There is no alternative. Maybe we will make mistakes in the details of the reform. Nobody has a good experience of making the transition from a dictatorship to a multiparty system," he said in a recent interview.

The chances of Mr Roman and his team of young technocrats creating a stable democracy depend on their ability to attract a broad base of support, which is not yet forthcoming.

The National Salvation Front, which won a landslide victory in last May's elections, has split into factions and is bereft of a policy and a leadership.

One group is dominated by young, pro-government technocrats who would be more at home with forming their own social democratic party with Mr Roman. The other, and stronger, faction, is made up of conservatives, bureaucrats and largely uneducated deputies who were hand-picked by the Front to stand in the elections. They are adept at blocking change.

For example, Mr Dan Josif, a Front senator, recently suggested that people should set up private businesses in their spare time, and after their day's work in the state-owned enterprises, earlier this month, the conservatives threw out a government proposal which suggested that people should be appointed on the basis of competence. Had it been passed, tens of thousands of bureaucrats would have been dismissed.

The other bastion of opposition comes from industry. Here, millions of workers have relied on the state for

their livelihood. That rug of security is now being pulled from under their feet as the government embarks on its economic reforms.

In effect, the government has become a victim of its propaganda at last May's elections. During the elections, the Front accused the weak opposition Peasant and Liberal parties of wanting to sell the country to foreign capital.

Today, faced with economic collapse, Mr Roman is in desperate need of foreign investment. Sections of the Front, and even larger sections of the workforce, shudder at this prospect. Foreign investment and an influx of foreign managers would diminish the bureaucracy's influence throughout the economy and expose the pervasive corruption and incompetence. Hence the vulnerability of the government. It has to turn the Front's economic and social policies up-side-down, and risk losing popular support. It will also lose support from the Front.

Furthermore, the government has little support from the non-Front opposition. The Peasants and Liberal parties remain suspicious following the miners' ransacking of their offices last June. The Hungarian Democratic Alliance, the second largest opposi-

tion grouping, is ambiguous in its support. The Group of Social Dialogue, a group of liberal intellectuals, remains aloof from politics.

When they speak out, the nationalist press, which supports President Ion Iliescu, is quick to sow seeds of division between intellectuals and other social groups.

As for Mr Iliescu, so far he has given Mr Roman carte blanche to introduce reforms. But he is reluctant to support the government openly. His instinct is to side with the Front's conservative and populist factions.

Against this background, the government could well be sacrificed if it fails to deliver on the economic front. Any collusion between workers, whose economic expectations cannot be met, bureaucrats who fear for their jobs, and nationalists who oppose the democratic system, could rapidly lead to unrest. Were Mr Roman's government to fall, Mr Iliescu, or the army, would be tempted to seize power.

For Mr Roman, the only hope is western financial support which could make economic and social reforms more palatable to Romanians and increase the chances of stability. But assistance is slow in coming. And as Mr Roman and his ministers admit, time is not on their side.

## Strike will halt France's legal system for 24 hours

By William Dawkins in Paris

ALMOST THE entire French judiciary is today due to grind to a halt as magistrates, legal officials and lawyers mount a 24-hour strike in protest against alleged underfunding by the government.

The stoppage comes four months after the first strike by magistrates in nine years highlighted the judiciary's growing anger at what it sees as erosion of its powers, lack of staff and poor pay and working conditions.

Today's demonstration, by nine unions across the legal profession, is triggered by widespread discontent at the FF198m (£1.5bn) justice budget for 1991, due to be debated in parliament today.

Magistrates accept that the budget, a real 6.7 per cent rise on the current year, is an improvement, but it falls well short of what they had been led to hope for by repeated promises from Mr Michel Rocard, the prime minister, to tackle the judiciary's problems.

The profession is growing under the weight of a 50 per cent rise in the case load over the past decade, with only a negligible increase in the number of magistrates. The average of 6,500 magistrates are demoralised by poor prospects for job promotion. They also feel insulted by the blow to their professional independence

inflicted by the passing of a law last year which included an amnesty for certain people suspected of using corrupt methods to raise cash for political parties.

This is the first real test for Mr Henri Nallet, France's new justice minister, who until the cabinet reshuffle early this month was in charge of another notoriously unhappy sector, agriculture. The strike is aimed against Mr Rocard rather than Mr Nallet, who clearly arrived too late to influence the justice budget.

So far, Mr Nallet has benefited from his image as an independent new arrival to this long-running problem by making a good impression among the sceptical magistrates.

He told a weekend conference of the USM, the largest magistrates' union, that he planned to improve salary structures and training for the judiciary, though he was unable to give any specific undertakings on the overall budget.

"You and we have the same diagnosis of the situation, on the basis of which we can start to work together," he said. This he warned: "If you want to be properly understood by public opinion and by the government, you must be aware that your action must respect the constraints of the law."

## Cossiga strives to rise above the party fray in Italy

By John Wyles in Rome

MR Francesco Cossiga's initial feeling when he arrives in London today on a three-day state visit will almost certainly be relief. The Italian president was embarrassed three years ago when he was forced to cancel a similar visit by one of the more trivial domestic political crises of recent years.

Now into the fifth year of his seven-year term, the slightly stooped, scholarly 85-year-old Christian Democrat (DC) politician has acquired a greater public role and authority than he had in 1987.

He has made an effort to conquer personal reticence and political timidity to fashion his presidency into a vehicle for expressing both public concern and dictates of the Cossiga conscience. He increasingly appears to regard the two as in perfect harmony, although his many and frequently controversial public declarations this year have earned him public criticism as well as respect.

His rebukes of Italian politicians for appearing to reduce every exchange to "a simple contest for power" and his anxieties about politicisation of the magistracy have found a wide public echo. But his wounding attack last month on Mr Leoluca Orlando, the former Mayor of Palermo who has done much to promote an anti-mafia culture in Sicily - "a good lad misled by a fanatical priest" - was more

worthy of a DC faction leader than an occupant of the Quirinale, the president's palace. Once a precocious 35-year-old constitutional law professor at the university of his native Sassari in Sardinia, Mr Cossiga would undoubtedly worry about degradation in Italy's political institutions.

His new activism - which he sees as "getting rid of some stones in my shoe" - and his attack on Mr Orlando may also reflect a desire to renew his tenacity at the Quirinale after

his term ends in 1992.

To those who see a hidden hand behind recent discovery and publication of 419 photocopied documents and letters of the late Aldo Moro, the criticism of Mr Cossiga in them will suggest the manoeuvre could be aimed partly at tempering such ambitions.

Mr Cossiga was interior minister during the 55 days Mr Moro was held by the Red Brigades and set a precedent in Italy by taking responsibility and resigning his office after

the DC president's murder.

He says the trauma of those days "had a great impact on my spiritual and personal life." But no more detailed revelation about his suffering could be expected from a man some Italian journalists characterise as "inglesi" because of his cool nerve and elusive personality.

He admits to a profound admiration for British institutions and legal processes which he believes was nurtured in Sassari, whose traditions are strongly liberal and demo-

cratic.

He will certainly find the state visit more enjoyable than he does some of the more ceremonial aspects of his role in Italy. He takes some refuge in things mechanical from boredom and his intense daily monitoring of Italian politics. Once a passionate radio ham, he is slightly infatuated by electronic gadgetry of all kinds and recently brandished a pocket telephone in front of a group of foreign journalists with almost childish pleasure.



Cossiga: greater authority

## New view for Yugoslavs

A TELEVISION station launched by the Yugoslav government will start broadcasting today with the aim of presenting a balanced view of events in the country. Reuters reports from Belgrade.

Mr Nebojsa Tomasevic, the director of Yutel, the new station, said programmes would be seen in most parts of Yugo-

slavia, except Serbia, which has refused to broadcast them. The station would show news and information programmes for one hour every evening. Television stations in Yugoslavia are under the control of regional authorities which have used them in a media war that has fuelled ethnic and political tensions.

## US computer plant to open in Limerick

Dell Computer Corporation of the US is to set up a factory in Limerick, in Ireland, to manufacture computers for the European market, writes Michael Skapinker. The plant, which will initially employ 150 people, will be on the site of a former factory used by Atari, another US computer company. That closed in 1985.

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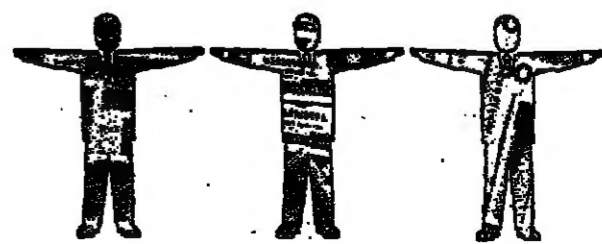
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## INTERNATIONAL NEWS

## ●THE MIDDLE EAST

## Fear reigns in Jerusalem as Israel restricts Palestinians

By Hugh Carnegie in Jerusalem

THE Israeli authorities yesterday barred Palestinians from the occupied territories from entering Jerusalem in a bid to prevent further violence between Arabs and Jews following the fatal stabbing of three Jews on Sunday.

In the West Bank and Gaza Strip, a Palestinian was reported to have been shot dead and a number wounded in clashes with the security forces. With Jerusalem pervaded by its recurrent atmosphere of mutual fear and suspicion, a Palestinian youth stabbed a Jewish man in Neve Ya'akov, one of a number of Jewish suburbs built on land captured from Arab hands in the 1967 war.

The victim was not seriously hurt. His assailant escaped. An Israeli soldier was also reported to have been wounded in an axe attack in Gaza. Meanwhile, troops sealed the West Bank home of Omar Abu Sirhan, the youth who stabbed to

death a woman soldier, a policeman and a civilian on Sunday apparently in revenge for the killing by Israeli police of 20 Palestinians in Jerusalem's Old City earlier this month.

Troops, police and paramilitary forces were widely deployed on all routes into Jerusalem and at main junctions within the city to prevent further violence by stopping Palestinians from entering. The authorities feared more attacks in answer to calls for revenge by radical groups following the Old City shootings and Israel's refusal to co-operate with a United Nations investigation.

The security forces also warned extremist Jewish groups against carrying out reprisal attacks on Arabs. Two months ago, a Palestinian was killed when his car was stoned by an angry mob protesting against the killing of two Jewish youths in the city. This

time, however, there were few reports of such attacks.

The government of Mr Yitzhak Shamir, the prime minister in the right-wing coalition led by his Likud party, has come under fire from the opposition Labour Party and other left-wing groups for not offering any political avenue out of this cycle of violence. A series of no-confidence motions was presented in the Knesset last night, but the coalition narrowly survived thanks to the support of ultra-orthodox religious parties.

Mr Shamir said the Palestinians were reacting violently because their dreams of "salvation" by Baghdad and of destroying Israel were not succeeding. He and his ministers have repeatedly said Palestinian support for Iraq undermined any prospect of negotiations. The prime minister again criticised the US for backing the UN condemnation of the Old City shootings.

## Virgin refuses to blush over role in Gulf crisis

By Jimmy Burns

AS Virgin Atlantic's spokesman was the first to admit yesterday, the Gulf crisis has not all gone the company's way.

Some "negative" commentators had noted the apparent eagerness with which the airline owned by Mr Richard Branson has tried to steal the limelight in the hostages saga, acknowledged Mr Will Whitehorn, the Virgin official.

"They think we're jumping on the bandwagon," he said as the company prepared one of

its Boeing 747s to pick up sick and elderly in Baghdad as the result of efforts by Mr Edward Heath, the former prime minister.

In the view of the cynics, rescuing innocent westerners from the clutches of President Saddam Hussein has joined slinging the Serbs, flying balloons and opening megastores in the repertoire of one of Britain's most publicity conscious entrepreneurs.

The Virgin official insisted that "Richard" - the chairman

of Virgin has always been referred to by his staff on first name terms - felt genuinely involved in the plight of the hostages because "he thinks it's the right thing to do".

It emerged yesterday that Mr Branson's relationship with the Middle East was first forged three years ago when he helped King Hussein of Jordan discover the wonders and pitfalls of flying a balloon.

More recently, the company says it was first approached in August by the Ministry of

Defence and the Foreign Office to see if it might provide airliners to help in the movement of people and equipment caught up in the Gulf crisis.

Since then Virgin has laid on 10 flights to Baghdad and Amman.

Two of these last month brought back western women and children. Other flights have taken medical and food supplies towards the Gulf, and Asian refugees out of it towards Sri Lanka and Bangladesh with the help of a £200,000

grant from the British Government's Overseas Development Administration.

According to Virgin, preparations for the latest flight got under way more than a week ago when Mr Heath rang Mr Branson and asked him to help out.

Virgin refuses to be drawn on why it appears to be playing a somewhat higher profile role in the Gulf crisis than British Airways, although it considers itself less bureaucratic and more friendly than its rival.

## Jordanians halt cargoes for Iraq

JORDAN has halted the flow of goods to Iraq, previously its main trading partner, to show compliance with United Nations sanctions against Baghdad, Reuters reports from Amman.

Police said yesterday that border authorities had barred all trucks carrying cargo from crossing into Iraq since Friday. The ban includes food and medicine. Jordan has been criticised for failing to implement fully the UN embargo on Iraq.

## Iraqi freighter boarded for second time

By Victor Mallet in Dhahran

MULTINATIONAL naval forces in the Gulf region yesterday boarded the same Iraqi freighter for the second time in three days to prevent it delivering a cargo to Yemen in breach of United Nations economic sanctions against Iraq. Boating parties from the Australian frigate HMAS Adelaide and the USS Reasoner took control of the al-Bahr al-Arabi in the Gulf of Oman. It was the first time in recent

weeks that an Iraqi ship is known to have defied instructions from the multinational forces after being boarded. Since the Iraqi invasion of Kuwait in August the naval forces have made more than 2,600 challenges to shipping and boarded more than 240 ships of which a dozen have been diverted.

The al-Bahr al-Arabi, carrying plywood and steel pipes from Iraq to Aden, was first

boarded by US forces in the Gulf itself on Saturday. US officials say the captain agreed to return north-west to Iraq but subsequently continued south through the straits of Hormuz.

Mr Richard Cheney, US defence secretary, said Iraq had seized a number of US-made Hawk missiles when it invaded Kuwait, George Graham writes from Paris. The Hawk defence system can destroy fighters 40km away.

## France seeks UN talks on Lebanon

FRANCE has asked that the five permanent members of the UN Security Council convene to discuss the conflict in Lebanon, AP reports from Paris.

The request follows the defeat this month of rebel General Michel Aoun and the assassination on Sunday of Mr Dany Chamoun, one of his main supporters. Gen Aoun remains holed up in the French Embassy in Beirut. The Lebanese authorities have refused to let him go into exile.

## Tokyo fears row with Peking over islands

By Robert Thomson in Tokyo and Peter Wickenden in Taipei

JAPAN is concerned that an argument with Taiwan over a group of long-contested islands in the East China Sea could broaden into a more serious dispute with Peking, which also claims sovereignty over the island group.

China, Japan and Taiwan claim ownership of the five uninhabited islands and three reefs that comprise what Peking calls the Diaoyutai group and what Tokyo refers to as the Senkaku Islands, 200km north-east of Taiwan.

The islands are said to be surrounded by rich fishing grounds and there were reports in the late 1980s that the area could contain significant oil reserves, although Tokyo has refrained from extensive testing of the area for fear of antagonising Peking.

The Taiwan government yesterday protested at Japanese coastguard obstruction of a private trip to the islands. On Sunday Japanese naval patrol boats and helicopters blocked two vessels carrying Taiwanese athletes from landing on the islands, where they intended to plant an Olympic torch as a symbol of Taiwan's ownership.

Mr Minoru Sakamoto, Japan's chief cabinet secretary, said yesterday the islands were "an

integral part of Japanese territory, and that the government would deliver a protest note to the Taiwan government, although the two do not have diplomatic relations.

In spite of this, Taiwan will attempt to negotiate with Japan through diplomatic channels and ruled out the use of armed force to solve the dispute.

The Japanese action prompted small protests by Chinese in Taiwan and Hong Kong, but Tokyo is more concerned that Peking will take a strong stand on the issue, which the two countries have tended to ignore for fear of damaging their ties.

Peking was annoyed by a suggestion earlier this month that Tokyo will formally recognise a beacon built on one of the islands by a Japanese right-wing group in 1978 and now apparently in need of renovation.

Last week, a Chinese foreign ministry spokesman said that the beacon violated Peking's sovereignty and that the islands had been Chinese territory since "ancient times". A similar statement was made early last year after Mr Soesuke Uno, Japan's foreign minister, suggested the dispute had been solved in Japan's favour.



Protesters of sacked prime minister Benazir Bhutto and her main election rival, Nawaz Sharif, in Lahore, capital of Punjab province, yesterday where both planned to conduct their final meetings as the campaign came to an official end before tomorrow's voting. Thousands of police carrying riot gear moved on to the streets of the city to control the tens of thousands of supporters of Ms Bhutto's Pakistan People's Party and her rival's Islamic Democratic Alliance (IDA).

Ms Bhutto, who has been drawing massive roadside crowds on her election tour, opted for a motorcycle escort Lahore after the authorities awarded the main rally sites to the IDA, saying

they asked first. Populous Punjab has more than half the seats in parliament. IDA and PPP flags, bearing the symbols that help a largely illiterate electorate place their ballot marks, festooned Punjab's bazaars in equal profusion in a close-fought campaign.

But local journalists and observers say electioneering is more muted than in 1988, when Ms Bhutto won power after almost 11 years of military rule.

President Ghulam Ishaq Khan sacked Ms Bhutto in August, appointed IDA leaders as a caretaker government and set up special courts to charge Ms Bhutto with misrule. Her husband has also been charged with corruption offences.

## Singh's crisis deepens on Hindu temple issue

By David Housego in New Delhi

THE Indian Prime Minister, Mr V.P. Singh warned in a nationwide television broadcast last night that he was prepared to sacrifice his government to prevent Hindu fundamentalists from building a temple in northern India on the site of an existing mosque.

Earlier in his strongest statement yet Mr Singh backed appeals to Mr L.K. Advani, the leader of the radical Hindu BJP party to call off his *rath yatra* (mass pilgrimage) now on its way to Ayodhya, where ceremonies to inaugurate construction are due to be held on October 30.

Implicitly telling Mr Advani that he faced arrest, Mr Singh said that if the appeal was not heeded, "I shall cease to play a mediating role... It is my duty to uphold the constitution on which I swore when I assumed the office of prime minister".

The BJP said last week that it would withdraw support from his government if the temple plans were thwarted. Without the support of the BJP, Mr Singh's one-year-old administration would collapse.

In a day of mounting tension in both New Delhi and elsewhere in north India, Mr Singh came under increasing pressure to take tough action against the BJP. Mr Mulayam Singh Yadav, the chief minister of Uttar Pradesh, in which

Ayodhya lies, called for Mr Advani's arrest. Chief ministers from other states pledged their support to Mr Yadav in maintaining law and order in the state where the Ayodhya dispute could precipitate violent clashes between Hindus and Muslims.

The BJP claimed that 15,000 Hindu militants have been put under preventive arrest in Uttar Pradesh. Three people were killed yesterday and several wounded in clashes between Hindus and Muslims at Bhoj in Uttar Pradesh. Mr Singh was increasingly pessimistic of a compromise being worked out. Mr Dinesh Goswami, the law minister, said he did not believe this was possible to achieve in the present emotional atmosphere and in the few days left. He said the government's attention would focus on defusing tensions.

This followed the reversal of a weekend plan under which the government would compulsorily acquire the site, allowing a temple to be built on open land while the mosque would be preserved.

In a last attempt to find a solution, the government yesterday appointed a committee of five chief ministers to renew the search. Two of the chief ministers failed to attend the first meeting.

## Japan's race row hangs over Mandela visit

By Robert Thomson in Tokyo



Kajiyama: slur caused storm

THE Japanese government continues to be highly embarrassed by derogatory remarks about black Americans made by a cabinet minister last month but which have gained significance with the planned Tokyo visit later this week by Mr Nelson Mandela, deputy president of the ANC.

Mr Seiroku Kajiyama, the justice minister, began the controversy during a tour of a Tokyo red-light district when he equated the impact of prostitutes on the area to US neighbourhoods that "become mixed because blacks move in and whites are forced to move out". The comment has drawn

expressions of deep regret from Mr Toshiki Kaifu, the prime minister, and Mr Kajiyama himself, but remains a potent issue, with a US congressional resolution late last week censuring the minister.

A US administration's attempt to end the controversy has created confusion in Tokyo, with Mr Kaifu and the Foreign Ministry this weekend strongly denying a White House statement that President George Bush had expressed personal concern to the Japanese prime minister about the slur. The White House spokesman was making the case that enough had been

said on the subject. There are fears in Tokyo that the US Congress sees the comments as an opportunity to launch more general attacks against Japan, and that only Mr Kajiyama's resignation will stop the criticism. Mr Mandela was received as an honoured guest by the Australian government yesterday but some aborigines were less friendly. Reuters reports from Darwin. Mr Michael Mansell, a lawyer who has set up what he calls a provisional aboriginal government, says Mr Mandela was dealing a blow to Aborigines by accepting the invitation from the government.

## China says drug problem worsening

By Peter Ellingren in Peking

CHINA has acknowledged its growing drug problem following an increase in drug-related arrests and the country's first AIDS death, an intravenous drug user from southern Yunnan province, bordering the notorious "Golden Triangle".

Officials say a special task force of 1,300 police has been formed to stem the flow of heroin and opium through Yunnan, long known to be a conduit for drugs, largely destined for overseas markets, from Asia's key opium-growing regions.

Mr Wang Fang, minister for public security, told a meeting of the Heads of National Drug Law Enforcement Agencies (Honleas) in Peking that China would increase co-operation with international agencies to hit cross-border trafficking.

The meeting was told by Mr Francisco Ramos-Galino, Honleas's narcotics director, that ethnic Chinese Triad gangs, not the Maia, now controlled the world's drug trade.

Peking's crackdown coincides with news of China's first AIDS death, identified only as a Yunnan man who contracted the virus from a needle.

## Mahathir's foes take poll loss badly

By Roger Matthews, Asia Editor

THE convincing victory achieved in the Malaysian general election on Sunday by the National Front coalition headed by Dr Mahathir Mohamad, the prime minister, appears unlikely to herald a period of reconciliation among the politically dominant Malay community.

Tengku Razaleigh Hamzah, a former cabinet colleague of Dr Mahathir who headed the electoral challenge to the prime minister, said yesterday that he congratulated the National Front on its victory. He added: "I wish to recall that this victory has been achieved through the abuse of power, money, the media, government machinery, and by whatever deceit was possible."

The bitterness of Tengku Razaleigh's concession statement reflected that of the election campaign and raises fears that despite winning 127 of the 180 parliamentary seats, more than the two-thirds majority needed to amend the constitution if desired, there may be difficult days ahead for the National Front.

Attention will particularly focus on Tengku Razaleigh's home state of Kelantan, in the Malay heartland, where the opposition took every seat in the local legislature.

The opposition victory gives effective control of the state to the Parti Islam which is now likely to adopt a more fundamentalist stance and seek to use its new power to advance Islam throughout the country.

The main Chinese opposition group, the Democratic Action Party, which was also allied to Tengku Razaleigh, narrowly failed in its ambition to win

the island state of Penang. Dr Mahathir could now decide to use his victory to reconcile the Malay community, for whom consensus has been a political way of life until the challenge to the prime minister's leadership of the United Malays National Organisation was launched at the party elections in April 1987.

But Dr Mahathir's angry response to that challenge suggests that he will use his election victory to consolidate his power base, and in particular his power to nominate the man who will succeed him.

It is suggested that Dr Mahathir, having suffered a heart attack and bypass surgery last year, will decide to step down within the next two to three years, allowing a successor time to assert authority before the next election.

## South Korean economic growth boosted by investment

THE South Korean economy will grow by almost 9 per cent this year in real terms despite the impact of the Gulf crisis, the governor of its central bank forecast yesterday, John Riddling writes from Seoul.

However, Mr Kim Kun, governor of the Bank of Korea, added that the country was expected to suffer a current account deficit of about \$1.7bn because of sluggish exports and rising oil prices. South Korea imports all its oil, which

represents about 54 per cent of energy requirements.

According to Mr Kim, the Gulf crisis and the economic slowdown in industrialised countries had forced the central bank to revise downwards its June prediction of a 9 per cent increase in GNP for the year as a whole.

But an unexpected increase in investment is compensating for much of the decline and GNP is now expected to grow by a real 8.8 per cent. Last

year, real GNP increased by 6.7 per cent.

On the trade account, however, the crisis in the Gulf has ended prospects for a sustained improvement. Current account surplus in July and September had trimmed the first half deficit of \$1.57bn, but increased oil costs and slower demand in South Korea's principal markets have prompted expectations of further deficits in the final quarter of the year. Last year, the current account registered a surplus of \$5.1bn.

The increase in international oil prices has also increased inflationary pressures in South Korea. Most analysts now believe that the government cannot achieve its target of a single figure rise in the consumer price index and are forecasting an annual rise of 11-12 per cent.

Mr Kim called on the government to postpone spending on public works and tighten credit in the private sector.

because such a move would close Algerian access to the international capital markets for a long time.

Their determination is comforted by the doubling in oil prices since the start of the Gulf crisis. Senior Algerians expect the increase will earn the country's state oil and gas monopoly, Sonatrach, about \$1.5bn more than expected, thus bringing total foreign earnings for 1990 to \$11.5bn.

Some international bankers who follow Algeria argue that these figures are too conservative. Whatever the exact figure of the windfall, Algeria's audited current account deficit has been turned into a surplus of at least \$600m.

The revenue windfall will be used to repay an estimated

\$600m in arrears owed by Algeria to foreign companies and strengthen hard currency reserves which currently amount to \$456m and are expected to rise to \$900m by the year-end. Gold worth \$2bn at current market prices is not included in this figure.

The longer term aim of the central bank is to hold hard currency reserves worth around \$2.5bn, that is the equivalent of three months of imports.

The third priority will be to boost economic growth through a limited increase in imports. Meanwhile, measures aimed at liberalising the economy continue with a number of joint venture expected to be signed during the next few months.

## Algeria to offer collateral for foreign bank loans

By Stephen Fidler and Francis Ghilès

THE ALGERIAN authorities are to press ahead with a programme under which they will provide collateral to encourage international banks to grant the country new loans.

The programme, underlining the government's resolve not to reschedule its foreign debt, would involve the use of some borrowings from banks to buy zero-coupon bonds which would guarantee the repayment of principal. Zero-coupon bonds pay no annual interest but their value grows until they mature.

The idea, developed by the Paris-based Banque de l'Union Européenne, would be for the establishment of a special purpose company which would borrow \$2bn (£1bn) or more. Roughly half would be lent to

Algeria and the other half used to buy either zero-coupon US dollar or French Treasury bonds which would guarantee repayment to the banks after 10 years.

A number of possible options have been outlined, including some in which interest payments to banks in years nine and 10 would also be guaranteed.

Because the special purpose company would not be an Algerian borrower, it is hoped that banks will be less unwilling to lend. They would not have to make provisions on their loans and their only risk would be the annual interest payments.

While financing the collateral would increase the Algerians' borrowing costs, BUE argues these increases would

be relatively modest over a 10-year period. If the idea worked, such operations could be carried out annually.

The expectation is that Banque Nationale de Paris and Crédit Lyonnais would arrange such an issue.

Meanwhile, the Algerian government remains determined to avoid rescheduling. For Mr Ghazi Hloulou, minister of finance, and Mr Abderrahmane Hadj Nacer, the central bank governor, the broader problem is not so much the size of the debt burden - \$26.3bn at the end of last year - but its unfavourable maturity schedule.

Of the total, 70 per cent matures before the end of 1993. They remain determined to avoid rescheduling not least

## Nairobi breaks off relations with Norway

By Michael Holman in Nairobi

KENYA announced yesterday it was breaking off diplomatic relations with Norway. A foreign ministry statement accused the Oslo of supporting one of President Daniel arap Moi's prominent opponents, Mr Koigi wa Wamwere, a former MP arrested in Nairobi last week and now facing treason charges.

A Norwegian foreign ministry official said Nairobi had been asked to reconsider its action. However the row may lead to further cuts in Norway's \$20m aid programme for next year. It has already been cut by 20 per cent as an expression of concern about human rights.

The row seems certain to prompt further concern among western governments about Mr Moi's handling of critics calling for an end to the country's one-party political system. Norway and the US have begun to link aid commitments to Kenya's human rights record, a policy Mr Moi has called "blackmail".

The authorities say Kenya's record is far better than most other African countries, which

do not come under the same Western scrutiny. The diplomatic break was preceded by a bitter attack on Norway by Mr Moi, accusing Oslo with complicity in treason.

Mr Wamwere won a reputation as a forthright government critic as an MP and went into self-imposed exile in Norway in 1988. He was arrested in Nairobi last week, together with two local lawyers, having clandestinely returned according to the police who said they had discovered arms caches.

The president defended the arrest and denied reports Mr Wamwere had been abducted from neighbouring Tanzania.

"Why should Norway protest because we have arrested a criminal who wanted to kill people? It appears what he wanted to do was at the behest of the Norwegian government," the president was reported as saying.

The Norwegian ambassador protested against the arrest, demanded Mr Wamwere be given access to his lawyers, and said Norway had reported the case to the United Nations.

## Mozambique makes way for market

By Stephanie Gray

MOZAMBIQUE's parliament yesterday approved a clause in the country's new constitution which recognises private property and the role of market forces in the economy.

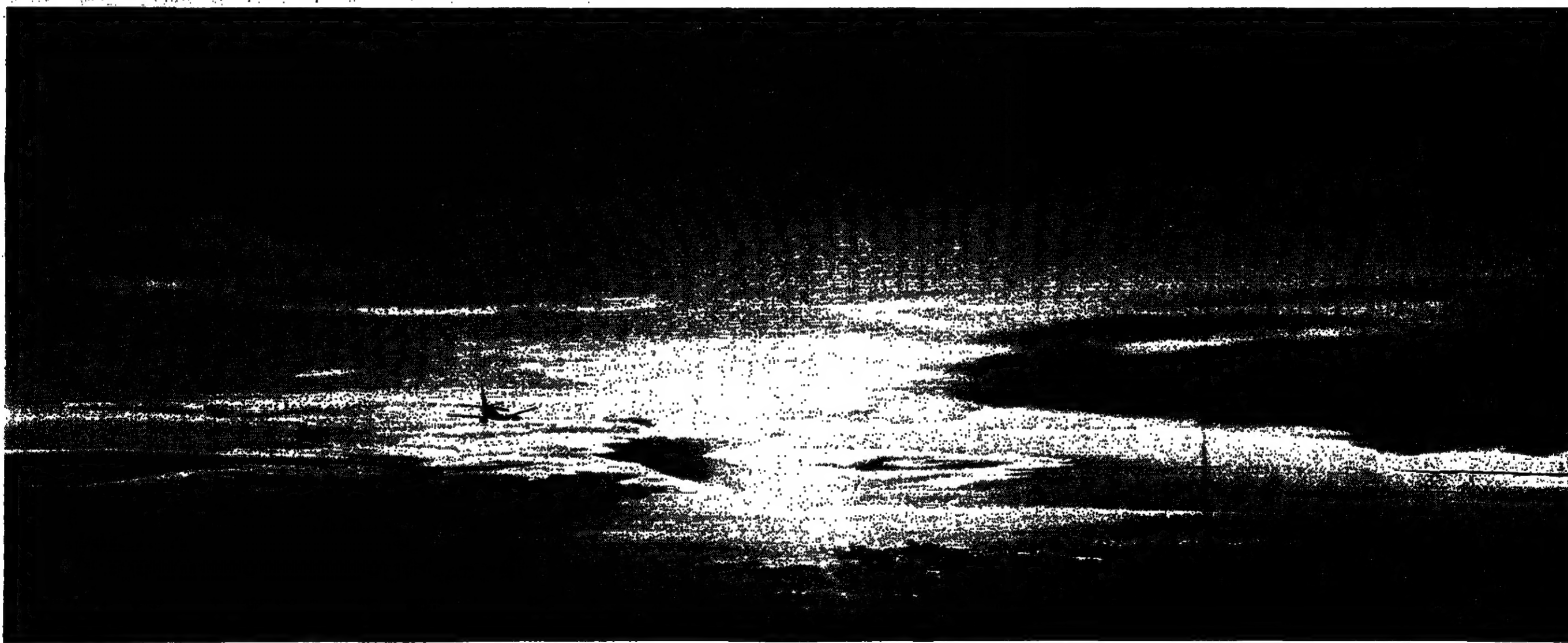
The decision followed the approval at the weekend of new constitutional articles committing the previously Marxist state to political pluralism after 15 years of one-party rule.

Both are long-standing demands of the rebel National Resistance Movement (Renamo), which the Frelimo government has been battling for 13 years in a civil war which has cost 600,000 lives.

The new economic order will be based on "appreciation of labour, market forces, initiative of economic agents, participation of all types of ownership and action by the state as a regulator and promoter of economic and social growth and development".

A law on political parties is to be drawn up before the end of this year and the first multi-party elections are due in 1991.

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# AMERICAN NEWS

## Bush' poised to overrule key minority rights bill

By Lionel Barber in Washington

PRESIDENT George Bush was last night poised to veto a key civil rights bill, a move certain to hurt his efforts to woo black voters to the Republican cause.

The veto threat follows months of White House negotiations with Congress and arguments among Mr Bush's top advisers over the bill, the legislative priority for black leaders this year.

The bill aims to overturn or modify five Supreme Court decisions which, critics argue, would weaken the rights of minorities and women in discrimination cases.

Having pressured Mr Bush on the issue of taxing the rich, the Democrat majority in Congress is now intent on casting him as a president insensitive to minorities.

Republicans, meanwhile, are urging Mr Bush to be decisive, even if it means upsetting blacks.

The president is caught in the middle. He has worked hard to bury memories of Mr Ronald Reagan and his studied indifference towards minorities.



Bush: increased black vote

— so hard that his approval rating among blacks jumped above 70 per cent, according to polls earlier this year.

Mr Bush said the bill passed by the House and Senate last week would make it too easy for plaintiffs to prove discrimination. He argued that employ-

ers would probably hire minorities and women to avoid legal action, even if they were not properly qualified. The bill set down "quotas", he said.

The House and Senate do not have the two-thirds majority votes required to overturn a presidential veto, so the bill seems certain to die. Some observers believe Mr Bush would have signed the bill if the budget fiasco had not intervened.

This is by no means certain. Recent polls suggest deep resentment among low-income white voters who believe blacks and other minorities are receiving preferential treatment and are abusing the welfare system. Republicans could tap this profitably in next month's mid-term elections.

In the background, is the newly emerging debate about the civil rights/Great Society legislation of the 1960s which may have helped some blacks improve their lot — but which have singularly failed to help the underclass.

## Congress agrees new targets for environmental legislation

By Peter Riddell

NEW RULES and targets for reducing damage to the environment caused by acid rain have been agreed by congressional negotiators, removing one of the last obstacles to finalising the most far-reaching clean air legislation since the 1970s.

Agreements have already been reached on auto-emission controls, the use of alternative fuels and airborne toxic industrial chemicals.

The last remaining problem concerns proposals, approved by the House but narrowly rejected by the Senate, which would provide \$250m over five years in additional unemployment benefits for workers such as coal miners who lose their jobs because of the legislation.

This provision is strongly opposed by the White House. On acid rain, a series of compromises has been reached to

deal with the concerns of legislators from mid-western states which will be most affected by the costs of cleaning up dirty coal-fired utilities.

The plan's target is to cut by half power plant emissions of sulphur dioxide, the main component of acid rain. This involves the use of pollution credits, earned by bettering prescribed pollution limits, and which are saleable to other utilities seeking to expand.

The negotiators agreed various incentives for scrubbers, which reduce sulphur from plant emissions. Between 1995 and the year 2000, coal-fired utilities in Ohio, Indiana and Illinois would receive extra credits worth as much as \$100m.

This meets some of the concerns of legislators from mid-western and Appalachian states about a big loss of jobs

in their high sulphur coal mining areas.

The total cost for US industry of implementing the legislation has been estimated at up to \$35m annually by the year 2005.

Prospects for the legislation revived earlier this month after a compromise on the contentious issue of car emission standards.

The legislation had been stuck in a Senate/House conference since late spring, following differences between environmentalists and manufacturing and utility interests.

However, environmental groups have expressed disappointment that the motor industry is not being pushed enough to produce new anti-pollution technology. By contrast, motor manufacturers have said the package is extremely tough.

## The rich are different — they pay less tax

THE American Dream is based on equality of opportunity rather than equality of outcome.

The current Democratic "fairness" campaign and effort to increase taxes on the rich in the budget package does not represent the start of a class war. Most Americans are quite content to tolerate millionaires provided they pay their fair share of taxes.

There is no dispute that inequality in income is substantially during the 1980s.

This was a result both of specific Reagan administration tax cuts favouring the rich and of a debt-driven boom in asset values.

It was a climate in which it was socially and politically acceptable to be ostentatiously wealthy.

The share of national income received by the top 1 per cent of the US population rose from 8 to 10 per cent between the late-1970s to the late 1980s. Their share of the overall income tax burden rose from 18 to 27 per cent during the 1980s.

Internal Revenue Service figures show that the number of

But making the wealthy fork out their 'fair share' will have little effect on the budget deficit, reports Peter Riddell from Washington

tax returns from those with gross annual incomes of more than \$1m jumped from 15,000 in 1984 to 66,000 in 1988.

The number of returns showing incomes of between \$500,000 and \$1m rose from 29,000 to 119,000 over the same period.

A controversy has raged in recent months by political analysts Kevin Phillips book — The Politics of Rich and Poor.

He points to two earlier instances in American history when heydays for both the wealthy and the Republicans, in the 1890s and the 1920s, have been followed by economic downturns and marked swings in the direction of populism and progressivism.

His argument that the time is ripe for similar transformation has been eagerly seized upon by the Democrats looking

for a popular, unifying theme. The increase in income disparities and stories of tax evasion by the wealthy have underpinned support in the polls for raising taxes on the rich.

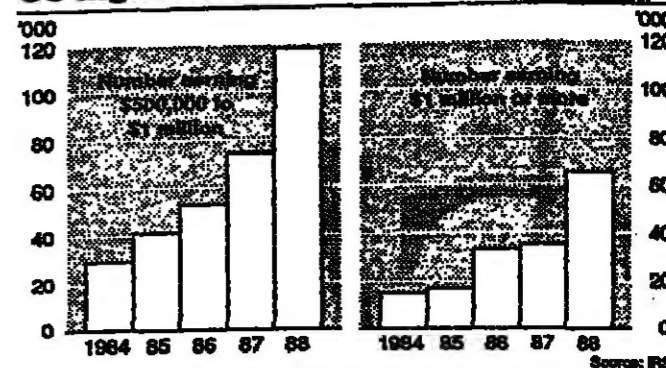
But this has been less a burst of egalitarianism than a call from those with middle incomes, whose take-home pay has been squeezed, for a fair contribution from the wealthy.

A new Washington Post/ABC News poll points to an admiration and respect for the wealthy among 55 per cent of those interviewed.

Some 58 per cent want to be rich themselves and 27 per cent think they will be rich one day.

The wealthy are seen by the majority as more likely to be well-educated, intelligent and physically attractive, though

US high earners



also more likely to be racists and snobs. Two-thirds think the rich are less likely to be honest.

There are contradictory strands in the poll — including the combination of a belief that people ought to have the chance to become rich with ambivalent feelings towards those who do.

Although the rich may be an attractive target, in budgetary terms they are an almost marginal one. Even the 10 per cent surtax

on those earning more than \$1m a year suggested in the House budget plan would raise only \$7.6bn over five years, just 1% per cent of the total deficit reduction package.

Extending a 53 per cent income tax rate to all higher income taxpayers would raise \$30bn over the period.

Even if the wealthy contribute their "fair" share through various higher taxes, the main burden of deficit reduction will inevitably fall on the vast majority of wage earners.

## Venezuela to reschedule Nicaragua's oil debt

By Joe Mann in Caracas

VENEZUELA has agreed to stretch over four decades the repayment period for long-overdue Nicaraguan oil debts.

The unusually generous terms tacitly recognise that Caracas is unlikely to receive significant repayments from Nicaragua, which is struggling to rebuild its stricken economy.

Nicaragua owes Venezuela \$160m (\$81.2m) in principal for oil shipped under terms of the San José Agreement, a joint accord by Venezuela and Mexico to supply oil to Central American and Caribbean governments at a discount.

The Venezuelans agreed during a recent visit from President Violeta Barrios de Chamorro of Nicaragua to reschedule payments of \$160m over a 40-year period, with six years of grace. According to Nicaraguan officials, interest payments will be contingent on Nicaragua's ability to surpass an annual export target of about \$1.4bn.

It was not clear if \$90m in overdue interest would also be

rescheduled or simply forgotten.

Venezuela only recently rescheduled most of its own external public sector debt with international banks, for a period of less than 20 years.

Last June it began shipping oil to Managua after a gap of several years. However, this is a temporary arrangement as official oil shipments under the San José accord will not start until both Mexico and Venezuela have reached a settlement with the Chamorro government.

Nicaragua owes Mexico close to \$1bn for oil. A Nicaraguan official said his government's total foreign debt was \$11bn, most of which is owed to the Soviet Union and former members of the Eastern bloc.

Central American and Caribbean countries owe Venezuela about \$900m, for oil supplied under the San José Agreement.

These debts have been quoted on secondary markets at only a tiny fraction of their face value.

## Panama claims to have pre-empted coup

THE PANAMA government has claimed to have stopped a rebellion by middle-ranking officers within its police force, following the arrest of two ringleaders over the weekend.

The Ministry of Government and Justice said the revolt was an "attempt to destabilise President Guillermo Endara's government, but we have ruled out that it was a coup attempt".

The ministry said two captains, from an elite anti-terror-

ist unit, were organising a nationalist movement within the 12,000-strong police force and intended to seize several barracks in the provinces of Chiriqui and Colon, the latter at the northern end of the Panama canal.

Arrests continued over the weekend, as other suspects were rounded up. Both captains had served in the former Panamanian Defence Forces (PDF), which was dismantled following the US invasion in December last year.

The majority of its troops were then recruited into the new police force, which took over public order duties as the US force gradually withdrew. About 10,000 US troops remain based in Panama, however, and are likely to stay there even after the Panama Canal Treaty expires in 1999.

Mr Dennis Hinton, US ambassador to Panama, reiterated at the weekend that his government continued to support President Endara's administration.

## Argentine troops unhappy over low pay

CONCERN is rising in Argentina over discontent in the armed forces because of low pay, particularly among right-wing extremists who support retired Colonel Mohamed Ali Seineldin, leader of the military uprising two years ago, writes John Barham in Buenos Aires.

This coincides with a wave of bombings in Buenos Aires, which yesterday saw a bomb exploding outside the British Hospital causing damage but

no injuries. Last week four bombs went off at offices of companies involved in the government's privatisation programme. Nobody claimed responsibility for the attack on the hospital, but a previously unknown group, the Eva Peron Commando, said it placed last week's bombs.

Vice-president Eduardo Duhalde and Mr Humberto Romero, the defence minister, met yesterday to discuss taking action against Col Sein-

eldin. A letter sent to the residence of President Carlos Menem at the weekend, purportedly from the colonel, warned of military "protest movements of such gravity that neither you nor I are able to predict". Officials are puzzled that the letter was sent, since President Menem is on a 10-day European tour. Mr Duhalde has said that, if Col Seineldin wrote the letter, he will be "severely punished" for insubordination.

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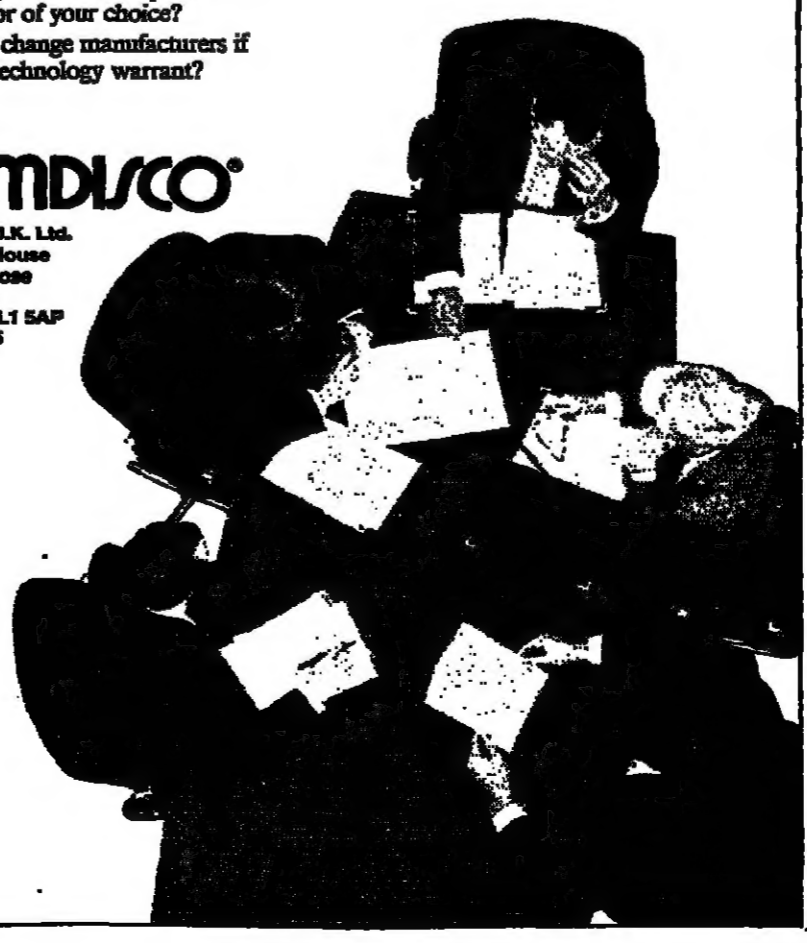
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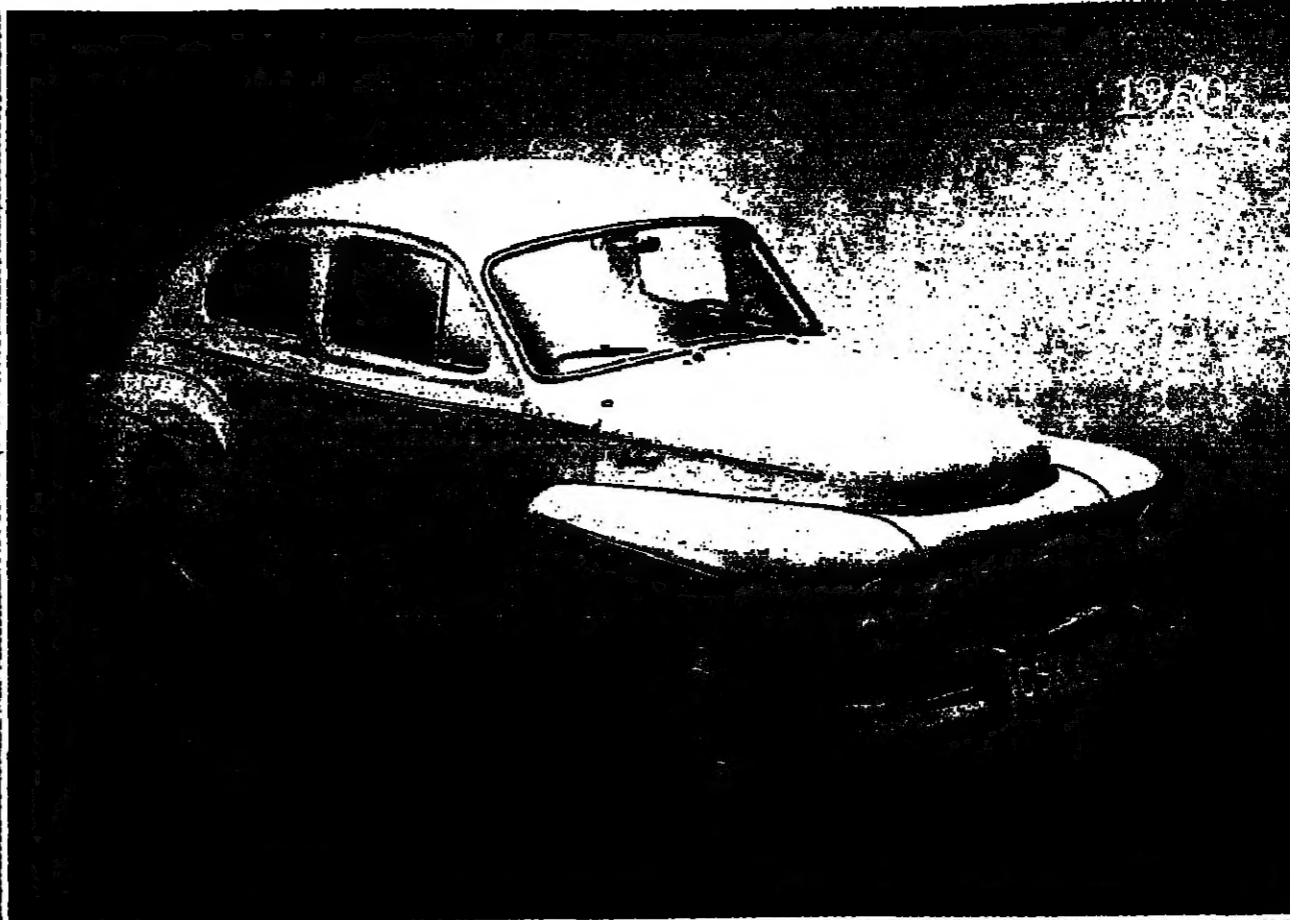
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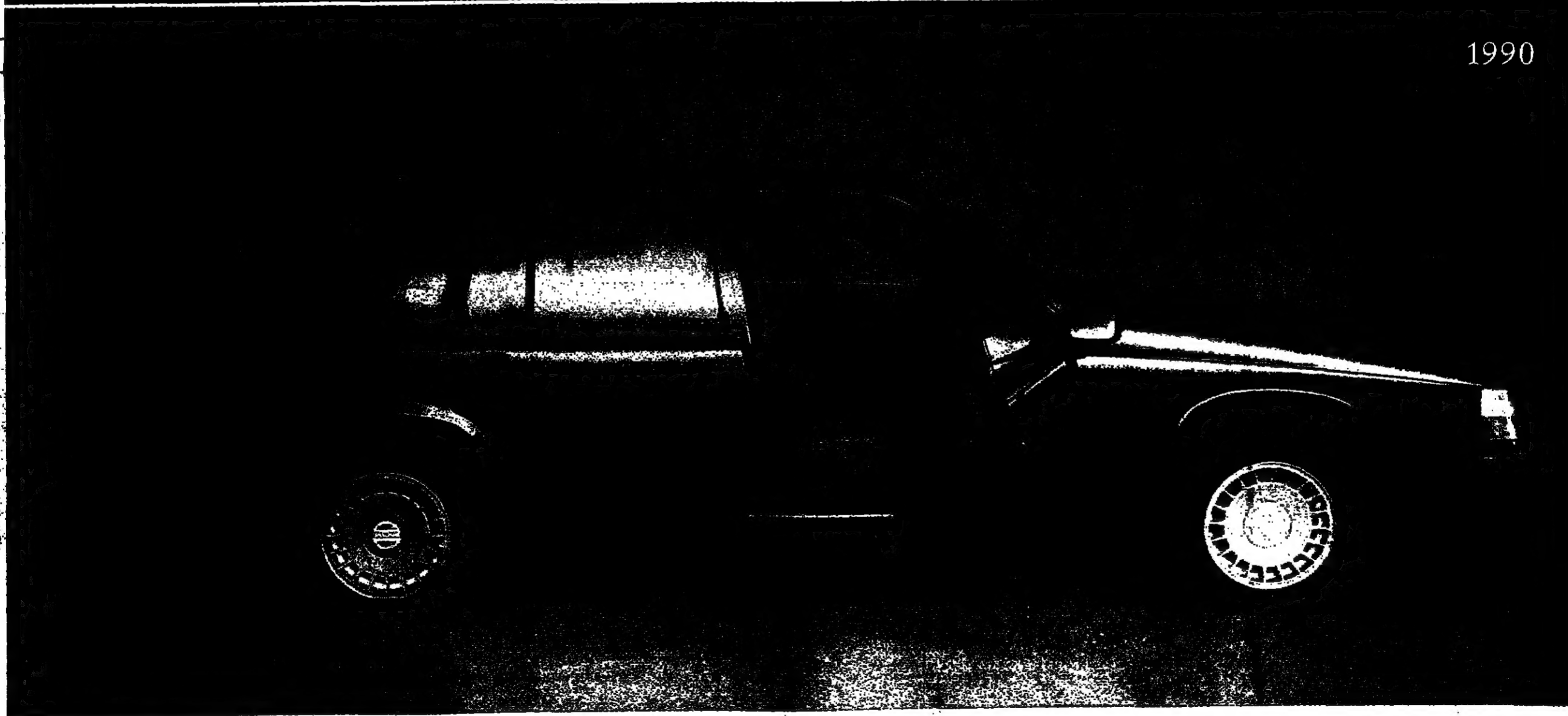
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## WORLD TRADE NEWS

## Talks on trade in services move to decisive phase

By William Dullforce in Geneva

URUGUAY ROUND talks on the liberalisation of the \$600bn (£315bn)-a-year world trade in services moved into a decisive phase yesterday.

A group of senior negotiators has been given two weeks to try to resolve conflicts over how 10 basic service sectors, ranging from banking to audiovisual programmes, can be incorporated into a new General Agreement on Trade in Services (GATS).

With only six weeks left before trade ministers meet in Brussels to conclude the Round, the conflicts of interest which are still thwarting the negotiations were displayed in reports to the Group on Negotiations in Services (GNS) yesterday.

The reports came from working groups of experts who have been trying to determine whether the particular characteristics of the 10 sectors could be accommodated into a GATS framework of general principles.

Negotiators acknowledge that the more exceptions allowed from the general principles, the more the validity of the GATS is undermined and for many countries its attraction is lessened.

However, in the talks at the experts level, two self-proclaimed champions for the removal of barriers to trade in services - the European Community and Washington - have been seeking derogations from the most-favoured-nation (MFN) rule for some sectors involved.

Under the MFN rule, trade benefits negotiated with one country must be granted to all others.

The EC wants MFN derogations in the civil aviation sector, in maritime transport, in land transport for inland waterways, trucking, rail and buses, and in audiovisual services.

Washington is holding out for exemptions in civil aviation, international shipping and telecommunications.

Each group of experts was asked to decide whether or not its sector should be accorded special treatment in an annex to the GATS.

Two draft annexes were presented to the GNS, on telecommunications and financial services.

Uruguay Round negotiators have agreed to introduce important revisions to three GATS codes, covering technical barriers to trade (better known as the standards code), import licensing procedures and customs valuation. William Dullforce reports.

To prevent standards being used as a device to protect domestic industries, the amendments sharpen definitions of what constitutes an unnecessary trade barrier and what standards can be considered as legitimate. The import licensing revisions will ensure traders are kept better informed and allow them more time to adjust to newly introduced licences.

communications and financial services.

While the telecommunications draft has considerable backing and is marred only by the US demand for an MFN exemption, the text on financial services, elaborated by a small group of finance ministry officials, is highly controversial.

Several developing countries, including Brazil and India, yesterday objected to it being taken as a basis for further negotiation.

In the audiovisual sector, concerning principally the sale of cinema, video, radio and television programmes, the European Community has its back to the wall.

Brussels is seeking derogations from the GATS provisions, using a "cultural content" argument to defend its industry against huge imports of US films and television programmes. The conflicting interests of US and EC shippers have provoked a difficult situation in maritime transport.

Washington wants a series of exemptions from the general principles, including the right to retain its national dispute settlement rule. The EC is seeking exemptions for the bilateral cargo-sharing agreements it has concluded under the UN liner code, of which the US is not a signatory.

## VW's humble hunch-back makes a comeback in Mexico

The Beetle has proved to be the Mexican people's choice for cheap transport, writes Richard Johns

THE sophisticated version of the VW Beetle being manufactured in Mexico today has come a long way from the prototype designed by Ferdinand Porsche at the behest of the Third Reich in the 1930s.

Output of Volkswagen's durable little hunch-backed vehicle came to a halt in Brazil in 1968.

Since then, Mexico has been the last production stand, but death for the flourishing Mexican Beetle seems a remote possibility.

Like all other cars manufactured in Mexico, new Beetles (old ones are undoubtedly one of the biggest contaminants of the air in the Valley of the Mexico) will be fitted next year with catalytic converters to satisfy the country's belated environmental campaign and to make the Beetle eligible for the US market.

Mr Martin Josephi, president of Volkswagen de Mexico CA de CV, is the first to acknowledge that the Beetle's success in Mexico has laid the foundation for a DM1.5bn (£500m) investment programme over the five years from 1990 to 1994.

Output of Beetles to the end of August had risen to 57,592, compared with 17,813 in the same period of last year, a more than three-fold rise.

In this period, it was the best selling model, still sneered at by rival manufacturers for its relative simplicity but perhaps also because it is by far the cheapest.

Overall the increase in production, including combi-vans, recorded by the German company in the first eight months of this year was 83 per cent compared with 17 per cent for the industry as a whole, according to the Mexican Automobile Industry Association (AMIA).

The share of the Wolfsburg-based company rose from 18 to 28 per cent - and the Beetle was mainly responsible.

In Mexico its name is Sedan. Popularly, it is known as El Vochito but probably would better be known officially now as El Coche del Pueblo (The People's Car).

Demand has surged in response to an initiative taken in 1989 by President Carlos Salinas de Gortari's administration, which challenged the motor industry to produce a vehicle at a cost accessible to people of lesser means.

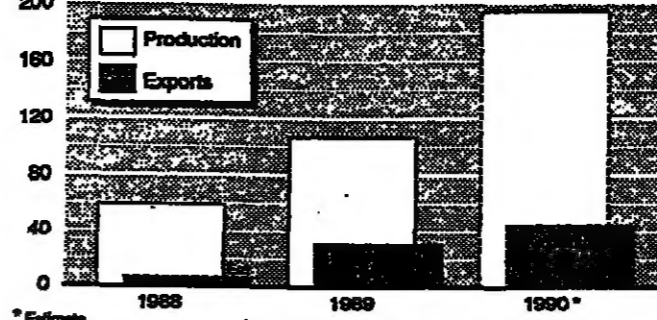
In exchange for fiscal concessions, exemption from 7 per cent duty on imported parts and 2 per cent luxury tax on new cars, VW Mexico is selling Beetles at 15,688 pesos (rather less than \$5,250), one of the cheapest cars available in the world.

It was, therefore, entirely appropriate that Mr Salinas agreed to take delivery this month of the one millionth Beetle produced by VW of Mexico since output began 25 years ago and the second millionth vehicle, a Golf - both of which are to be raffled for charity.

VW switched North American output of Golfs from a

### VW in Mexico

Number of cars ('000)



\* Estimate

plant in Pennsylvania to Mexico two years ago and now produces the Jetta too. Both are main export models for VW.

For the Salinas administration, the investment commitment of a European (rather than North American) multinational is politically important within the context of its negotiations on a free trade agreement with Mexico's powerful northern neighbour.

Though the Beetle is now almost wholly reserved for

three-months waiting list for new cars - VW is one of the country's major exporters.

It ranked fifth in 1989 in a survey by the business magazine Expansion, behind General Motors and Ford, but with a far bigger increase in value terms of 104 per cent, compared with 17 per cent and 19 per cent for its US competitors respectively.

Statistics published by the Mexican Automobile Association (AMIA) show exports of units by VW to have rather more than doubled.

Its performance in a rapidly expanding domestic market compares with percentage increases of 27 per cent by General Motors and 2 per cent by Ford (whose export-oriented Taurus-producing Hermosillo plant was closed down for retooling until mid-April). Nissan's performance declined by 17 per cent and Chrysler by 2 per cent.

Mr Josephi says that VW's overall exports this year should reach \$900m out of a total of \$2bn.

About half will be accounted for by North America and most of the rest by Europe, with Brazil also a significant customer.

Expanding sales abroad of engines, axles and other spare parts will account for a significant part of the total, Mr Josephi says, stressing that the Mexican affiliate is very much in competition with those in Europe and still enjoys the advantage of cheaper labour.

But training is an area in which Volkswagen de Mexico clearly feels it excels, putting high-school trainees (leaving age 16) through three-year courses.

Mr Josephi clearly believes in the reciprocal benefits which would be provided by a free trade agreement with the US or a trilateral one with Canada.

VW's DM1.5bn investment commitment, aimed largely at raising capacity from 220,000 to 300,000 vehicles annually but also modernising the plant and improving models, should alleviate some of Mexico's fears that it will lose out in the wake of German reunification and the lure of the eastern European markets.

Beetles now account for nearly two-thirds of VW car output at the Puebla plant. Who knows, they could soon be finding their way to Warsaw and Budapest.

## Hopes fade of end to EC farm impasse

By Robert Thomson in Tokyo

HOPES were fading last night that European Community Foreign Ministers would be able to break the EC impasse on farm reform.

Foreign Ministers of the 12 had been asked to discuss Brussels' proposal for a 30 per cent cut in supports, after EC farm ministers failed to reach agreement. Yesterday, the main aim of Mr Gianni de Michelis, current president of the EC Council of Ministers, seemed to avoid formal talks on the issue at next weekend's special Rome summit.

Officials fear a clash between Mrs Thatcher, UK prime minister, and Mr Helmut Kohl, German Chancellor, who has intervened to back Mr Ignaz Kiechle, his farm minister. Detailed talks on the Commission's 30 per cent proposal, its offer for the Uruguay Round's final stages, was not contemplated yesterday. But some believe the ministers may try again next week.

## US chip market growing in Japan

By Robert Thomson in Tokyo

FOR the past two years, Mr David Metz has argued the case for US semiconductor in Tokyo, and, with a certain satisfaction, he notes there are now fewer disputes and more US chips in Japan.

"There were Japanese companies that would not use alien chips. Japanese industry has now recognised there is a US-Japan semiconductor agreement, and that they have a stake in maintaining fair international trade," says Mr Metz, executive director of the Semiconductor Industry Association office in Japan.

But the US-Japan semiconductor pact, signed in 1986, remains one of the most sensitive bilateral trade issues, and Japanese companies have been irritated by recent US proposals to fashion a new agreement when the present pact expires next July. The present agreement calls for a 20 per cent market share for foreign chips by July, but it is expected that

the figure will be closer to 16 per cent. US companies, and Mr Metz, are prepared to give Japan more time to reach the 20 per cent level as the first target in the next five-year agreement.

"Frankly, I think Japan needs another chip agreement. For something like this to work in Japan, you really have to have specific targets. I think this has been shown," Mr Metz said. His first stint in Japan was from 1972 as local head of semiconductor business for Motorola, and he will return to the US to work for that company. In the early days, "there were no arguments about market access, there were just import barriers".

His stint in Japan has aroused his interest in industrial policy, and he admires the foresight of some Japanese politicians and the Ministry of International Trade and Industry in targeting semiconductor as a key industry of the

future. But he is also convinced US semiconductor makers have a reasonably bright future. "I am optimistic there will be a US semiconductor industry. US companies are delivering good quality chips on time in Japan. They have shown they can do the job."

His stay has convinced him that stories about Japanese lacking in creativity are unfounded. A "fringe" of younger Japanese were now developing software programmes challenging the US product.

"It used to be said the Japanese could have the hardware market because they were better suited to developing it, but the US would always have the software. You must have both," Mr Metz said. He thinks he is lucky to have been in Japan when market share for foreign chips is expanding.

Foreign groups needed to be involved in Japan, to keep up with technological innovation.

## Deutsche Bundespost chooses digital equipment suppliers

By Robert Taylor in Stockholm

DEUTSCHE Bundespost Telekom has chosen the Fieracode consortium as one of its three suppliers of digital transmission equipment for Germany's telecommunications system between 1992 and 1997. It was announced yesterday.

Ericsson, the Swedish telecommunications equipment company, is part of the consortium, along with DeTeWe of Berlin and Fuba Communication, part of the German company Hans Kolbe.

The other two suppliers are to be Siemens and the French company Alcatel.

The value of the order has not been announced yet, but further details on the order will be released next month. However, it is believed it could amount to between \$810bn (£225m)-\$K15bn.

The order from Deutsche Bundespost Telekom for Ericsson follows on from the com-

pany's earlier breakthrough into the lucrative and expanding German telecommunications market this May when it won a DM550m order in alliance with Siemens to install the largest wide-area cellular telecommunications network in Europe.

The products supplied are digital cross-connect (DCC) systems and associated computerised management systems.

Yesterday, Ericsson said the new equipment would enable Deutsche Bundespost Telekom to provide digital leased-line services on demand directly to business customers. The DCCs also improve the use of transmission capacity within the public telecommunications network.

Test installations will start next year with commercial services due to begin by the middle of 1992.

# In May, the fastest Intel-based PC on earth. Now, from NCR, something over ten times as fast!



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An established environmental team solving some of the toughest problems on earth.

## UK NEWS

## Post Office claim improvements to delivery times

By Paul Abrahams

THE POST OFFICE yesterday said it had made the best improvement yet in the delivery of first-class mail.

It said that between April and September this year, 85 per cent of first-class letters were delivered the following day - its target - by either first or second post. This compared with 77 per cent in the same period last year.

Sir Bryan Nicholson, chairman of the Post Office, said the results meant service levels were "far better than ever before", although he admitted more work needed to be done. He said that an independent survey of national delivery rates showed that the percentage of first-class mail arriving on target was 92.2 per cent in local areas (88.4 per cent last year); 86.3 per cent in adjacent areas (78.5 per cent); and 78.1 per cent of long distance mail (65.4 per cent).

The survey was commissioned from a research company by the Post Office and endorsed by POUNC, the industry's watchdog.

However, its findings were challenged yesterday by the Forum of Private Business,

which represents 17,500 small businesses. Its own survey claimed that only 30 per cent of mail arrived the next working day and that 7 per cent took three working days.

The FFB study was accused of being a "Mickey Mouse survey" by Sir Bryan. "The FFB survey was made up of only 574 postcodes," he said. "Our survey, conducted independently on an agreed methodology with our watchdog, involves a quarter of a million letters. I cannot allow my management strategy to be ruled by a sample of 574 letters."

The FFB said its survey was the first it had conducted and would be repeated every six months. It called for the break up of the letter monopoly. "If the Royal Mail cannot provide a first-class service, it should step aside and give someone else a chance," said Mr Stan Mendham, founder of FFB.

Sir Bryan said the "very good value" second-class delivery service ensured 98 per cent of the letters handled - just over half the total of 60m letters posted every day - reached their destination within the three-day target.

## GKN looks at project in Germany

By John Griffiths

GKN, the motor components, industrial services and defence group, is expected to decide before 1991 whether to proceed with a project to produce car drivshafts in east Germany.

If the go-ahead is given, GKN will use a plant at Mosel, near Zwickau, previously set up to supply drivshafts for the outmoded East German Trabant car, to make constant velocity drivshafts for the facility that Volkswagen is setting up - also at Mosel - to produce 250,000 Golf and Polo cars a year from 1994.

The new VW plant is close to the existing Trabant factory and will involve capital investment of about DM35m (£18m), including the construction of metal stamping facilities, body-shell assembly, paint shop and final assembly operations.

GKN had considered undertaking the Mosel drivshafts facility on a joint venture basis, but is now expected to fund the project itself on the basis of long-term, secure contracts from Volkswagen.

The UK components group, which has 11 drivshaft-making facilities around the world, derives about three-quarters of its annual automotive turnover - or some £900m a year - from driveline components.

## Labour consummates marriage to Europe

Ivo Dawney examines the motives behind the conversion of Britain's opposition party

FROM love at first sight, the gradual seduction by Brussels of Britain's opposition Labour Party has seemed at times more a marriage of convenience, firmly based on the old adage that "my enemy's enemy is my friend."

Nor is today's Commons debate on Britain's entry into the Exchange Rate Mechanism (ERM) likely to shed much more light on the true extent of Labour's conversion to things European.

But while some anti-EC Labour politicians will suffer a touch of political indignation at hearing their shadow chancellor claim the ERM as his own, others will be straining for hints from the party leadership as to how it may try to keep a step ahead of the government without exposing rifts in its own ranks.

So far, Labour has had considerable success in selling itself as both united and constructive on the EC. But the image building owes as much to stealth as to conviction.

When Mr Chris Smith, a Labour Treasury spokesman, hinted in a television interview last week that a new step towards the European mainstream on monetary union was now being contemplated, party officials leapt to fill the security breach with conditions and reservations.



Bound for Europe: Kinnock appeals for party backing

In part this is for historical reasons. The party's conversion from outright opposition to the EC to the now official "cautious but constructive" positivism owes as much to dislike of Mrs Thatcher as to affection for Mr Jacques Delors.

There are few major milestones to chart the course of what has been Labour's greatest U-turn since the abandonment of unilateralism. But when the TUC's decision

to invite the EC Commission president to its 1988 conference was followed a fortnight later by the prime minister's Bruges denunciation of a "European superstate", even the sceptics could see advantages in taking the parliamentary battle to the continent.

Labour, meanwhile, retains the advantages of opposition. While the government must agree a stance for the Inter-Governmental Conference in Rome in December, Mr Kin-

nock needs merely to agree a nebulous form of words with his partners in the Confederation of European Socialist Parties on the conditions for further economic convergence.

With the vast bulk of the party still agnostic on the issue, continued hostility from the prime minister could prove just sufficient a glue to keep Labour united.

That was confirmed last year when the European parliamentary elections saw an upstart Labour campaign impose the party's first substantial defeat of the government in a decade. Since then, however, Labour's march towards a democratic socialist Europe has been impeded by the problems of keeping the party in step.

Today, attitudes to the key issues, monetary and political union and a European Central Bank, cut right across the traditional left-right battlelines.

The official party position insists that continued economic integration is "inevitable".

But it goes on to insist that full monetary union and a single currency can only come after greater convergence between the UK economy and those of its partners.

On the other hand, the Central Bank, Labour insists that this can only take place when political accountability is in force

and the bank's statutes establish a firm commitment from its directors to adopt regional, social and growth policies.

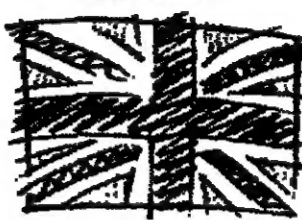
For longstanding anti-market party agreement on ERM entry was already a step too far. Mr Peter Shore, a prominent member of the anti-EC Safeguards Committee, objects strongly that the issue had never been properly debated within the party.

"I am uncertain whether it [ERM entry] is due to pro-EC posturing or as a more serious failing to understand the questions and implications of EMU or a single-European currency," he insists, adding that sovereignty issues are still not understood by the rank and file.

On the other hand, some on the left such as Mr Brian Sedgemoor, a Campaign Group member now firmly committed to further EC integration, argue that only by means of a single currency can a socialist Europe defend itself from the swings of the speculative investment.

"There is an element of truth about the prime minister's comments about socialism through the backdoor," he said yesterday. "With a single currency you wipe the currency market out and with a strong regional policy you have something more akin to socialism."

## BRITAIN IN BRIEF



### Banks to loan £2.1bn for tunnel

International banks are expected to sign new £2.1bn loans agreement with Eurotunnel, the Anglo-French Channel tunnel group, in London and Paris on Thursday.

The cash is needed to complete the project which has risen in cost from an original estimate of £4.8m to more than £7.5m. Agreement with the banks, some of which initially were reluctant to support the refinancing, will trigger a £580m rights issue. The prospectus for the issue is due to be published in the first half of November.

### BA to raise domestic fares

British Airways domestic fares are set to rise by 5 per cent from next month because of the Gulf crisis.

BA has applied to the Civil Aviation Authority for permission to introduce the increase on November 12. The airline plans to seek an increase in international fares at a later date.

The domestic rise, if granted, will mean the cost of a BA one-way super shuttle executive ticket from London to Edinburgh or Glasgow rising to £97.

### Stakes of integration

Countries such as Britain with a labour market model which falls between corporatism and full deregulation have the most to gain from integration with other economies within the Single European Market, according to a study.

The study of labour markets in Europe by the macroeconomic policy group of the Centre for European Policy Studies, suggests corporatist countries such as Norway and Sweden, or deregulated countries such as the United States, gain less from additional trade competition than European countries "in the inferior middle ground".

The study comes amid debate over whether Britain's entry to the Exchange Rate Mechanism will moderate wages rather than force higher employment.

### Insurance pool for aviation

Nine British insurance companies are pooling their resources to create one of the world's largest aviation underwriting operations.

The joint venture, called British Aviation Insurance Group (BAIG), will be based at the Institute of London Underwriters Building. It has a projected premium income of more than £115m this year and will start underwriting risks from January 1 next year.

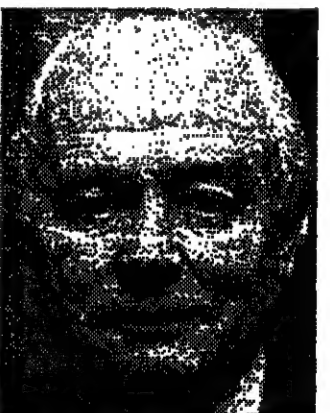
### EC scrutinises Irish claims

The EC Court of Auditors is reported to be investigating "very serious irregularities" surrounding the way in which some Irish food producers have claimed refunds under the EC's system of export credits.

A preliminary auditors' report alleges that in some cases cheese, and other dairy products, were found to be contaminated with insects and dangerous micro-organisms. Even though the shipments of these products were rejected, the Irish producers concerned still claimed EC export refunds, says the report.

### Arson bureau established

The Home Secretary Mr David Waddington will be writing to the Association of British Insurers to finalise arrangements for a new National Arson Prevention Bureau.



David Waddington

The government is to fund the bureau's annual budget of between £140,000 - £150,000 jointly with insurers.

The new organisation is expected to be formally constituted early next year. Its priority would be to improve the ability of firefighters to identify arson fires at an early stage.

Losses due to arson fires are estimated at a £1m a day by the ABI.

### Call for elected city mayors

Mr Michael Heseltine, the architect of Britain's present urban development policies, wants directly elected mayors along the lines of the US, to solve the country's continuing crisis in the cities.

Mr Heseltine believes that running Britain's cities has to be "re-energised". He wants elected mayors to be formally bargained for funds directly with Whitehall and government ministers.

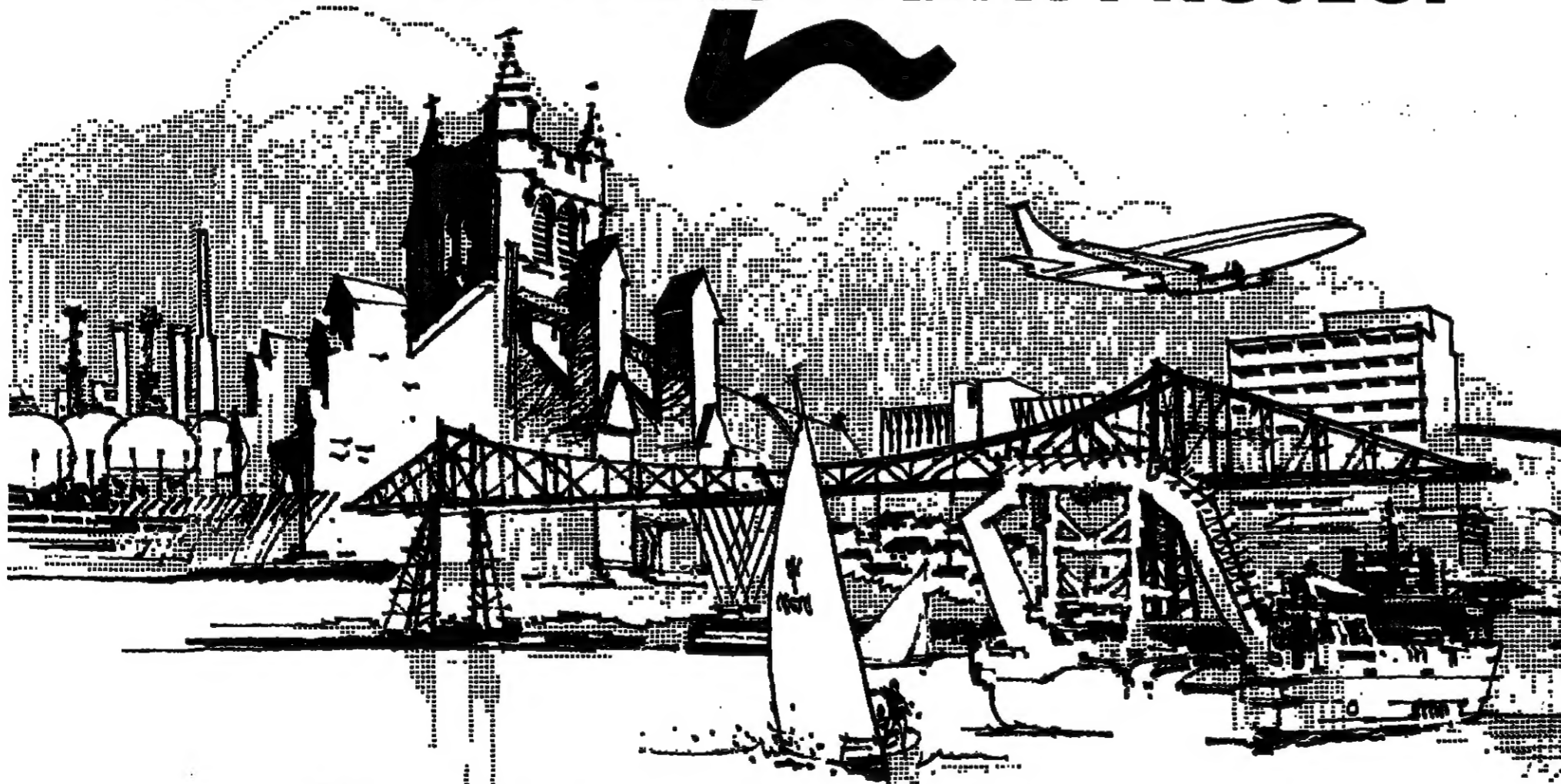
### No loans for violators urged

The European Bank for Reconstruction and Development (EBRD) must freeze loans to governments and companies that fail to meet environmental standards, according to a World Wildlife Fund for Nature report.

It was one of 19 recommendations to ensure that the bank fulfils its mandate to promote environmentally sound private sector growth in central and eastern Europe. It said the bank should help governments in the region to put environmental legislation in place and penalise them if they are slow to do so.

# TEES/SIDE

## THE UK'S BIGGEST NEW URBAN DEVELOPMENT PROJECT



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Hartlepool - provision of residential, leisure and business amenities and maritime-related enterprise at the new marina complex. Teesside Park - specialist retail outlets at the old Stockton racecourse, now being developed together with the UK's largest leisure centre. Teesside opportunities - backed by Development Area grants and Enterprise Zone incentives. To find out more contact Duncan Hall, Chief Executive, Teesside Development Corporation, Tees House, Riverside Park, Middlesbrough, Cleveland TS2 1RE. Tel 0642 230636. FAX 0642 230843.



# TEES/SIDE

Initiative Talent Ability

# Kevlar\* and Nomex\*: Helping to increase motor racing safety.

It's quite normal for Formula One racing cars and even rally cars to reach 200 km/h and sometimes well over 300 km/h. Clearly, the smallest technical defect or driver error at such speeds can have serious consequences, which makes driver protection and safety crucial.

Racing drivers know this. They wear helmets reinforced with KEVLAR and protective overalls made from flame-resistant NOMEX III.

Such precautions have already saved many a driver's life. Press reports suggest, for example, that this is the case with former world champion driver Niki Lauda, as well as Nelson Piquet and Gerhard Berger.

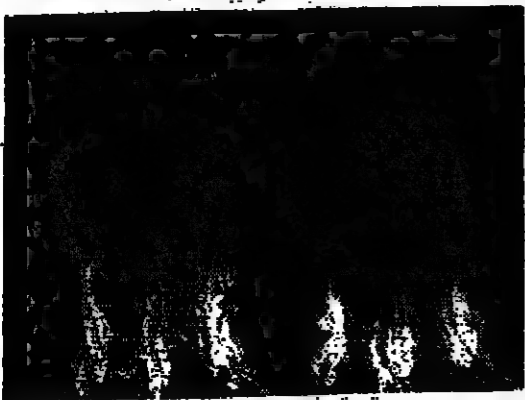
**NOMEX III - The superior flame-resistant formulation**

In motor racing, spectacular accidents are, unfortunately, all too frequent. And if a car catches fire, a few seconds can make the difference between life and death.

A protective garment made from NOMEX III can save a life in this sudden, critical situation. This heat- and flame-resistant fabric provides protection against fire for an exceptionally long period.

NOMEX III is a blend of NOMEX meta-aramid and KEVLAR para-aramid developed by Du Pont. It has proven advantages over other heat- and flame-resistant textiles. This is mainly because the woven material does not break open even when exposed to flame, so that the skin is not directly exposed to the fire.

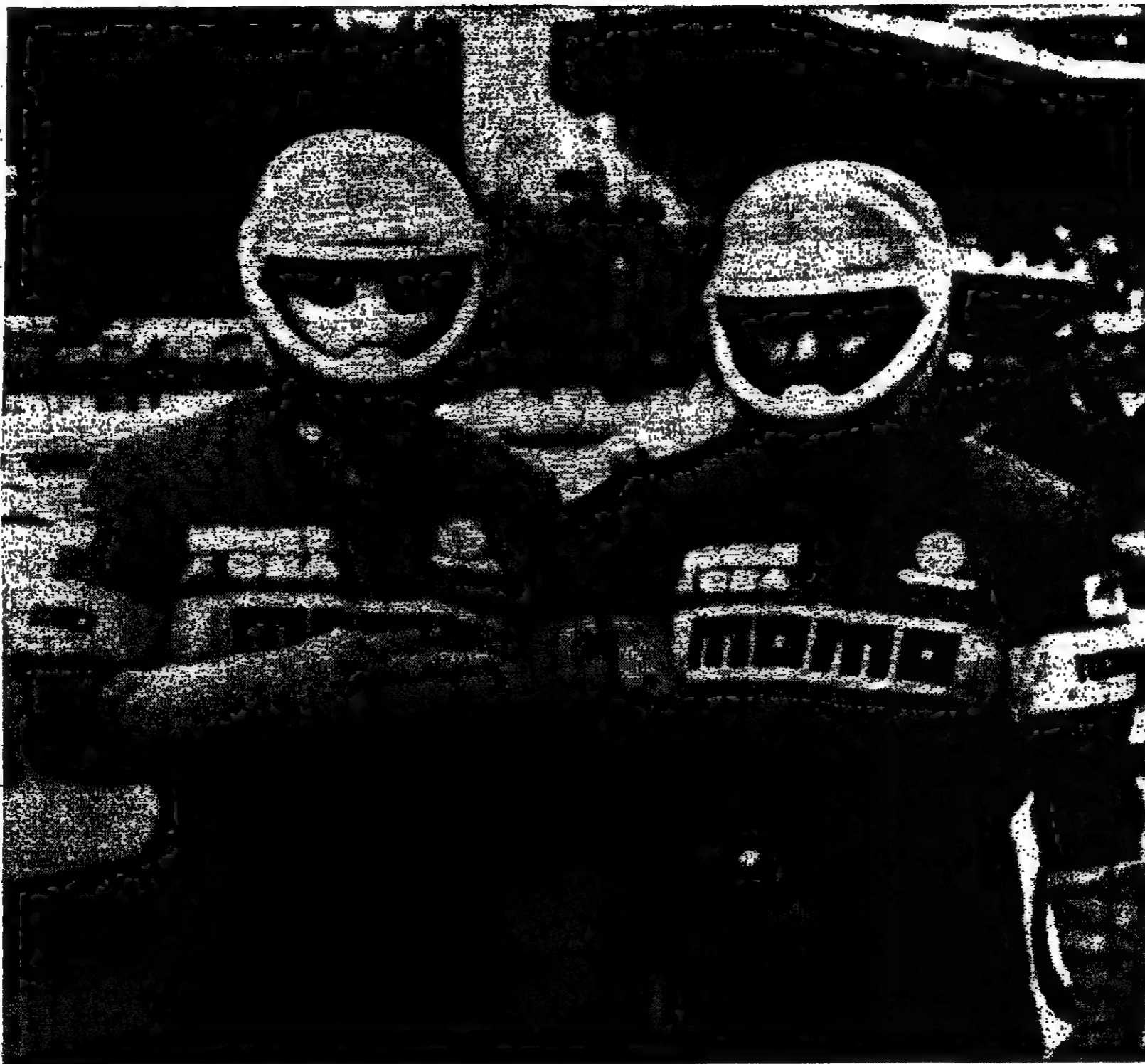
Du Pont has subjected NOMEX III to numerous tests which confirm its exceptional protective properties. A special manikin developed by Du Pont, known as the "Thermo-man", is one of these. It is 1.85 metres tall and has 122 sensors distributed over its entire surface to register temperature, quantifying pain thresholds and the critical point when burns first occur. The results have provided invaluable information for the development of safer protective clothing.



NOMEX III under test on the "Thermo-man"

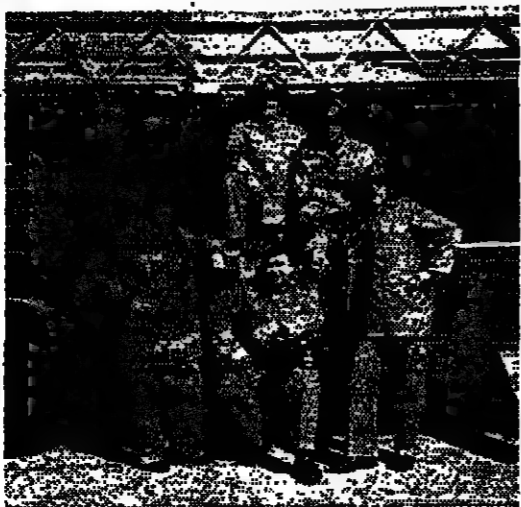
## Critical protective clothing applications

Firemen, policemen and industrial workers can all find themselves in potentially dangerous situations. Garments of



NOMEX III can be developed to provide the degree of protection required for different risk situations. And with a special advantage: material made from this patented fibre blend is as much as 40% lighter than flame-retardant cotton for the same protective performance. In addition, NOMEX III is resistant to most chemicals and does not melt.

What's more, a protective garment made from NOMEX III is a good investment for another reason - its protective properties are permanent, even after



Indian fireman wears clothing of NOMEX III

long periods of wear and repeated washing. It will last about six times as long as a garment of flame-retardant cotton.

This is why public authorities and organisations are relying increasingly on clothing made from NOMEX III. In the U.K. the majority of professional firemen are equipped with NOMEX III. So are an increasing number in Germany. In Italy, all 25,000 members of the national fire service are equipped with protective garments made from NOMEX III.

## World rally champion with Kevlar

KEVLAR makes many contributions to the increased safety of motor racing. For example, it is used to reinforce helmets, car body components and tyres.

A burst tyre at high speed is a nightmare for any driver. Hours of driving combined with repeated heavy braking subject tyres to exceptionally heavy loads. Leading tyre manufacturers have therefore adopted KEVLAR to reinforce their high-speed and other speciality tyres. Tyres reinforced with KEVLAR have numerous advantages: they are lighter, develop less heat and withstand greater loads.

Michelin, Pirelli and Dunlop have been

using KEVLAR for some years with considerable success: most rally world championships in the past ten years as well as the 1987, 1988 and 1989 Group C World Championships were won on tyres reinforced with KEVLAR.

The average motorist also benefits from KEVLAR. Not only in tyres, but also in brake pads, clutch linings, cylinder head gaskets and cooling system hoses, KEVLAR enhances safety and reliability.

## Kevlar "Hx" Series - The second generation

Several years ago, KEVLAR pioneered a new era in fibre technology. Never before had there been a fibre with so many outstanding qualities. KEVLAR is light, strong, corrosion-

proof, heat resistant, self-extinguishing, non-magnetic and electrically non-conductive. And it retains all its useful properties from -40°C to +180°C.

Du Pont is now once again setting standards in fibre technology with the KEVLAR "Hx" Series, which achieves significant performance improvements for specific applications. KEVLAR "Hx" has, for example, higher tensile strength; KEVLAR "Hm" a higher modulus of elasticity; and KEVLAR "Ha" greater adhesion. KEVLAR "Hc" is available in other colours as well as the original yellow, while KEVLAR "Hp" is ideal for optimising performance of sports equipment.



Group C - Worldcup 1987 and 1988 for Japan - and therefore, for Dunlop tyres reinforced with KEVLAR as well

## Innovative technology means progress

KEVLAR and NOMEX are produced by the Engineering Fiber Systems division of Du Pont, which also developed TEFLON\*, TYVEK\*, TYPAR\*, CORDURA\* and high-strength Nylon.

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Du Pont is one of the world's leading research-oriented companies, and currently employs more than 17,000 people in Europe alone.

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## UK NEWS

# Strong pound threatens to cut UK competitiveness

By Peter Marsh, Economics Staff

BRITAIN'S exporters may be moving into a period of reduced competitiveness as a result of the strong pound, the Confederation of British Industry said yesterday.

The CBI, the employers' organisation - which represents many of the country's biggest exporters - said there were "clouds on the horizon" for many of these companies, in spite of yesterday's trade figures, which showed that exports in September held up well compared with August.

Exports last month totalled a seasonally adjusted \$2.8bn, up 2.5 per cent on August's \$2.6bn. In combination with a 1.5 per cent decline in imports between the two months, the high export figure narrowed Britain's current account deficit for September to \$260m, the lowest monthly total since December last year.

Sterling's high value in recent months has increased the value of Britain's exports but has harmed the competitiveness of many British companies compared with overseas rivals. That trend has begun to show up in figures for the volume, rather than the value, of goods sold overseas.

On a seasonally adjusted basis - and excluding oil and high-priced items such as aircraft - export volumes fell by 1 per cent in the three months to September compared with

	CURRENT ACCOUNT (£bn)			
	Current Balance	Balance	Visible Trade Exports	Imports
1988	-15.2	-21.1	80.8	101.9
1989	-18.1	-23.8	82.8	116.6
1990				
Oct 1	-4.6	-5.8	25.4	31.2
Oct 2	-5.1	-6.2	28.1	31.3
Oct 3	-3.8	-3.5	25.6	29.4
Jun	-1.6	-1.6	8.6	10.2
Jul	-1.8	-1.8	8.3	10.0
Aug	-1.2	-1.2	8.8	9.8
Sep	-0.8	-0.8	8.8	9.6

Imports for July to September are projections.

Figures are seasonally adjusted, and may not add up due to rounding.

Source: CBO

the previous quarter. The volume figure for the past three months was, however, up 8 per cent on 1989 figures.

According to Mr Sudhir Janskar, head of economic trends at the CBI, some UK companies are switching resources to export markets in response to the depressed conditions of the domestic economy. This has been true for sectors such as cars, consumer goods and chemicals, all of which have pushed up exports in the past three months compared with the position a year ago.

In the longer term, however, many analysts doubt the degree to which such businesses can continue increasing exports while the pound is pegged to what many believe is a high central rate within the European exchange rate mechanism of DM2.95.

Mr Avinash Persaud, an economist at UBS Phillips & Drew, said that a snapshot view of exports over the past month gave a flattering view of the underlying forces in the UK economy. "The (exports) position could easily worsen by this time next year," he said.

THE UK economy is in the middle of a recession in growth, according to the indicators which chart movements over the business cycle. The Central Statistical Office said that all its four indices of cyclical movements had been declining for some time.

The indicators are now showing a consistent recessionary trend and are consequently being taken more seriously by economists. They were ignored in the past for erratic and misleading signals.

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## MoD points to fruits of success in Awacs deal

By David White, Defence Correspondent

THE MINISTRY OF Defence yesterday claimed success for its controversial offset programme linked to the purchase of Awacs radar aircraft from Boeing of the US.

Work placed with British companies under the deal had passed the \$1bn mark less than half-way through the eight-year span of the programme, it announced.

A target total of \$1.5bn in high-technology offset contracts was agreed after the UK opted for the Boeing aircraft and ditched the British-developed Nimrod early-warning system almost four years ago.

The US group clinched the deal after lifting its offer from 100 per cent to 130 per cent of the value of the sale.

The prospect of its fulfilling its promise has since been called into question - especially its forecast that the work would provide 40,000 job-years to British industry in the first five years.

In response to criticism from the cross-party Commons Defence Committee, the MoD said last year it would start monitoring the impact of the programme on jobs.

Boeing emphasised yesterday that the employment forecast was not part of the contract. Under the agreement, Boeing submits on a six-monthly basis a list of contracts it has signed, and the MoD decides which of them to approve as offsets.

The \$1bn figure refers to the period from late 1986 to the end of last year. Boeing said a further \$272m worth which it had submitted for the same period was awaiting a final decision.

A percentage of follow-on contracts for deals concluded before the Awacs agreement can be counted as part of the offsets. This includes supplies of Rolls-Royce engines for Boeing aircraft. Critics of the agreement argue that this is work that British companies would have received anyway.

The Awacs aircraft are a militarised version of the Boeing 707 airliner, the E-3 Sentry.

## Chink of light in siege mentality

A FEW yards from an army barracks in a sidestreet close to the walls of Londonderry, Northern Ireland's second city, there is a Gothic-style mansion. It has been home for more than a century to the Apprentice Boys Association, one of Ulster's most "loyal orders".

Inside, one confronts the extent to which a community's sense of identity can be imprisoned by history. In a panelled room hung with the sombre portraits of past general secretaries, there is a plaque dedicated to the 13 apprentice boys who shut the gates of Londonderry on the army of the Roman Catholic King James II in 1688. The raising of the subsequent siege led to the defeat of James at the Battle of the Boyne.

The plaque proclaims: "May their heroic deed and battle cry of 'No surrender' stimulate each successive generation with fervency and zeal to uphold the crimson banner, the emblem of our unconquered city."

In more recent times the slogan 'No Surrender' has been invoked by Loyalist protesters when confronted by the slightest indication that their hold on power might be undermined by Whitehall or Dublin.

Arguably, no other sentiment has done more to provoke the wrath of Catholics, and to undermine British government attempts at dialogue.

Yet within the protestant community at large, the emotional charge of history has lost some of its force in the midst of contemporary political and social realities.

Mr Derek Miller, the current general secretary of the Apprentice Boys Association, rooms around the ancient battlements with a funeral air which contrasts starkly with the bubbling optimism of some of the Catholic inhabitants of Londonderry.

"Twenty years ago there were 25,000 protestants living on this side of the city. Now there are less than 7,000 and they are still moving out," he says.

Many protestants left Londonderry in the 1970s at the height of sectarian violence and they have continued to leave in a small but continuous trickle since then.

Mr Miller regrets the extent to which the Catholics appear to have monopolised everything from urban regeneration

Jimmy Burns in Ulster talks to the Protestants and assesses their new willingness to compromise



Out of step: the mood among protestants suggests loyalist hands may be clashing with a spirit of conciliation

to the local football team which now plays in the Southern Irish league.

When pressed, Mr Miller becomes less apocalyptic and rather more conciliatory. There is, he says, sufficient "goodwill among moderate nationalist people" in town, for protestants like himself to consider moving back.

Talks are under way between local protestant leaders, private investors and the government, to see if protestants can have a greater share in the urban regeneration which is being channelled largely through Catholic community leaders.

Even conciliatory Unionists, however, remain vehemently opposed to the precursor to the Brooke initiative - the Anglo-Irish agreement - which they believe gave Dublin excessive influence in the affairs of the province.

Those protestants who have chosen to remain close to the Catholic community in Londonderry live in a drab council estate a few hundreds

"The Catholics are as friendly as ever with me," she says, noting that the community still feels it needs the protection of the security forces against the IRA.

Within the loyalist tribal lands of Belfast, as in Londonderry's Fountain estate, the tough talk and their symbols are never far away.

The Shankill Historical Society makes no pretence of where its priorities lie. In its shop window, there are banners proclaiming "Proud to be a Protestant" and "UVF" emblems and uniforms. But the combination of urban redevelopment and the economic pressures of high unemployment and the need for more housing appears to be transcending religious prejudice and historical identity.

In Belfast, Mr Ken Hagan remembers physically attacking Catholics in the early days of the troubles. The man he shares an office with, Mr Augustus "Gusty" Spence, was released from prison in 1984 after serving 18 years of a life sentence in connection with the shooting of a Catholic barman.

Mr Hagan and Mr Spence claim to be very different from the men they once were. They run the Shankill Activity Centre, where volunteers try to reconcile warring communities through the use of "mixed workshops".

The volunteers include Catholics from the nearby Falls Road area who still have to negotiate a tortuous route around the walls and steel palisades which separate the communities.

Mr Hagan says: "Politicians have been getting us nowhere so we have to organise at community level... Paisley doesn't speak for me. He doesn't want to look at change."

Mr Jackie Redpath, a publisher of the Shankill Road newsletter and a director of the local development agency, believes that there is a "great desire" among ordinary people "to have quite simply a decent quality of life". By this they mean work, a decent house, and "peace to carry on their normal lives".

And yet Mr Redpath did not quite share in the optimism that is to be found at the Shankill Activity Centre. He warns: "There is a great weariness here. The desire for peace is not the result of great energy flowing but of a sense of hopelessness."

## Travel group plans joint venture with Japanese leisure concern

By David Churchill, Leisure Industries Correspondent

THOMAS Cook, the UK travel group which is part of Midland Bank, yesterday agreed to a joint venture with the Japanese leisure conglomerate Saison Group to set up a chain of travel agencies in Japan.

The agreement could see at least 88 Saison Thomas Cook offices being opened up in Saison's department stores throughout Japan.

Mr Peter Middleton, Thomas Cook's chief executive, declined yesterday to disclose the cost of the investment. He said that Thomas Cook might

increase its minority stake in the venture as it developed. Mr Middleton said the joint venture was "part of our strategy of developing a global network of travel operations".

The company has been researching the Japanese market for the past 15 months and has been in negotiations with Saison for the past six.

One problem was Saison's joint ownership of the Intercontinental hotel chain with Scandinavian Airline Systems.

Thomas Cook was anxious to ensure that any travel opera-

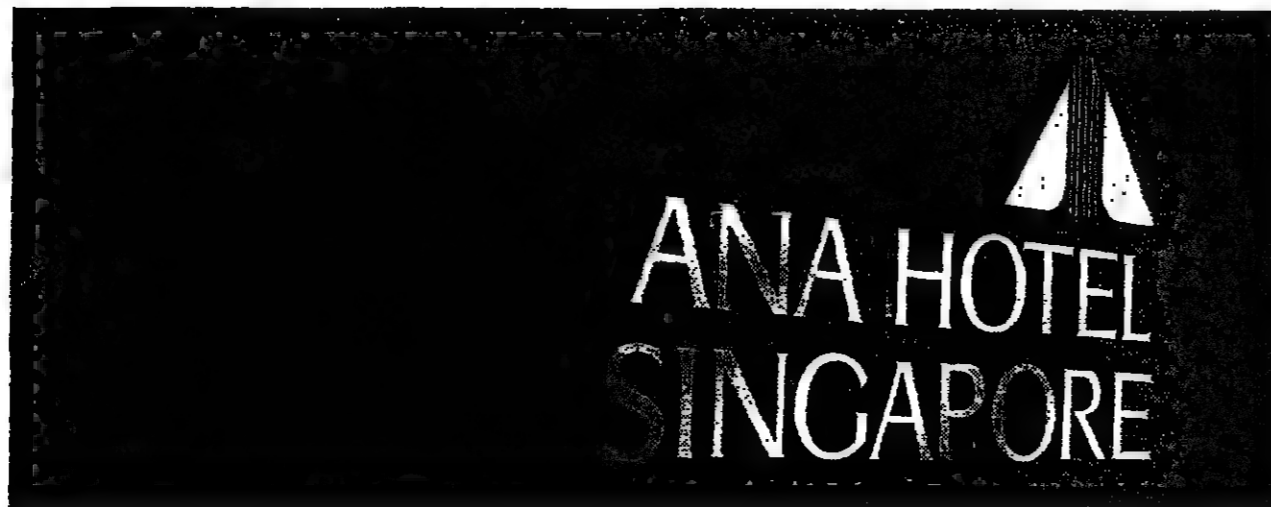
tion bearing its name was not linked to any hotel or airline.

"We wanted to be sure that the new venture was in the same position to give independent advice as other Thomas Cook outlets," Mr Middleton said.

The new chain is expected to begin operating in Japan in April next year.

Thomas Cook, which had a turnover last year of £10bn, already has a presence in more than 120 countries. However, it is now expected to develop its network of offices in continental Europe.

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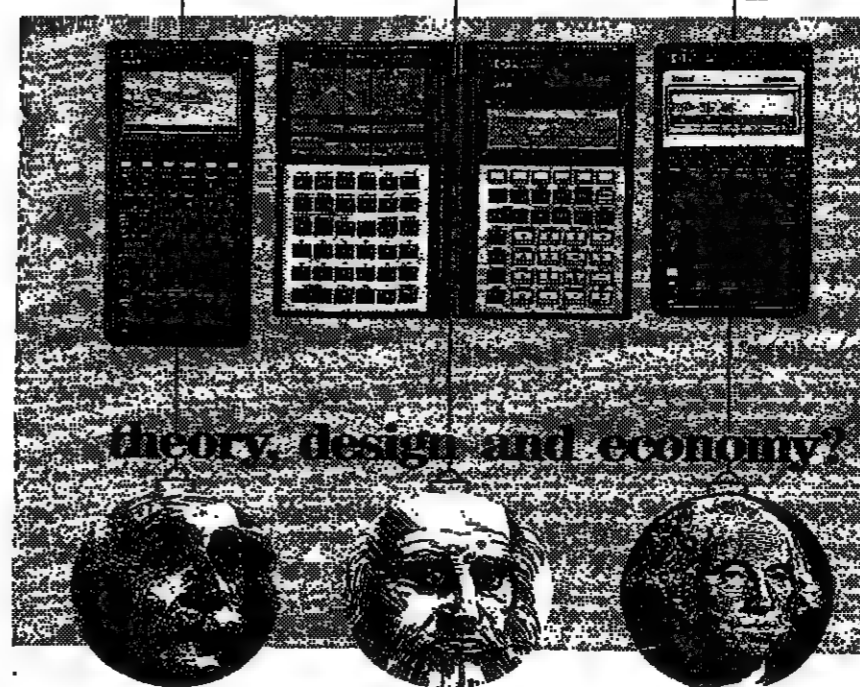
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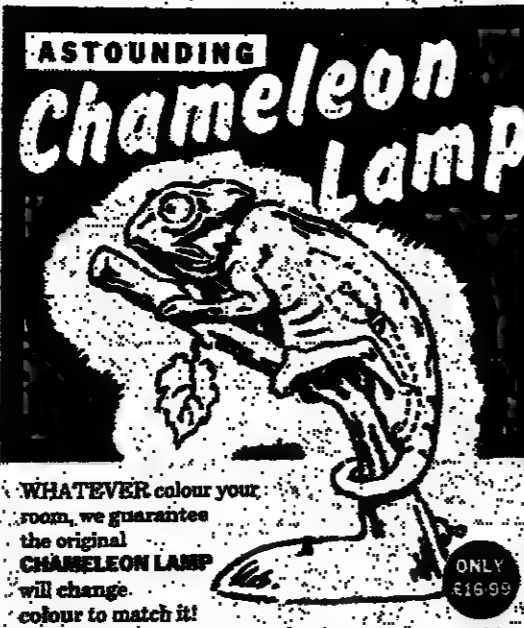
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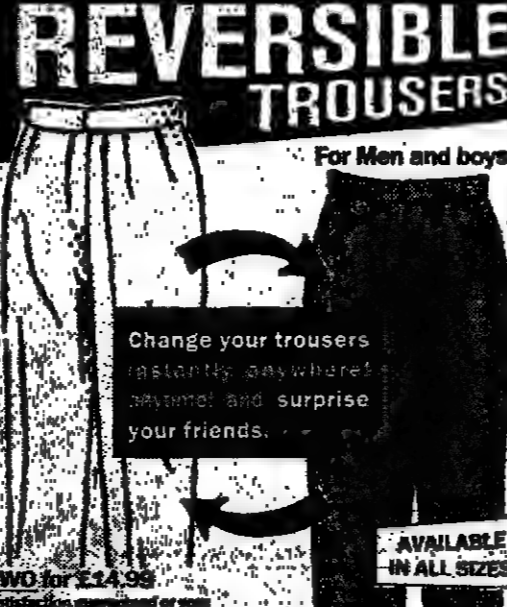
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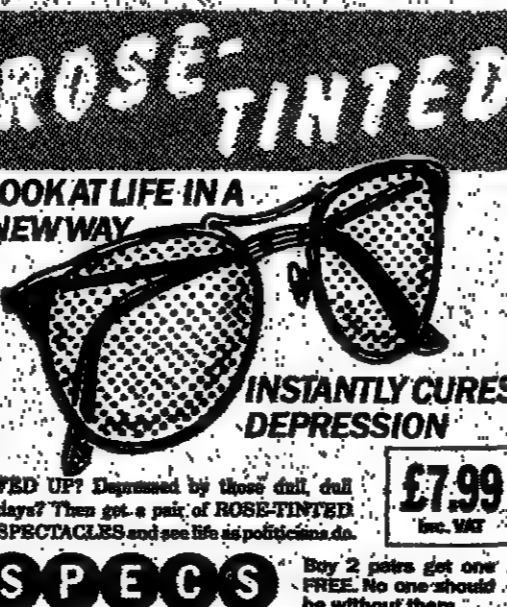
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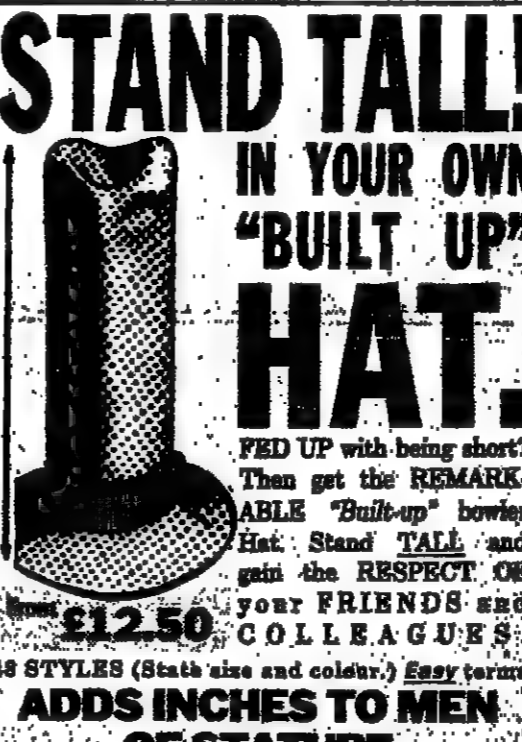
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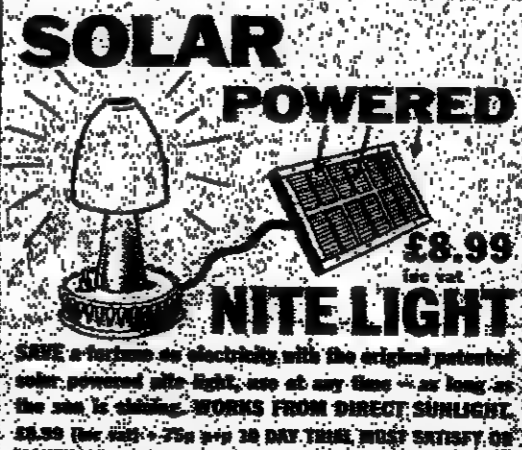
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## MANAGEMENT: The Growing Business

## Problems of expansion

## When the eye is taken off the market focus

Charles Batchelor explains why diversification can look attractive but prove to undermine core activities

Progress International, the office furniture installation business set up in 1983 by Darryl and Gregory Wong, had been in business for just a year when the two brothers decided to branch out.

In quick succession they set up a van-hire business and opened a shop selling orthopaedic furniture. Both businesses were spin-offs from their core activity and the brothers were keen to spread their risks.

It was not long, however, before the Wongs became painfully aware of the costs associated with their attempts to diversify. Turnover of the core business stagnated; the company's limited financial resources were strained; and the two brothers found they were devoting at least 50 per cent of their time to activities which accounted at most for 30 per cent of turnover.

"We didn't realise what the drain on our time and on our working capital would be," says Darryl Wong, chairman and joint managing director of the south-east London-based company. "It was a bad judgment."

On the advice of Greater London Enterprise, a smaller firms investment and training organisation which was originally attracted by the idea of investing in the orthopaedic furniture business, the Wongs decided to concentrate their resources on the office furniture installation activities and the other two businesses were wound up in 1988.

After two years of losses Progress has returned to profit. Progress has returned to profit. Progress has returned to profit.

The over-ambitious diversification campaigns by large multinational companies have been the focus of much attention in recent times and the aggressive acquisition programmes of the early 1980s

have been replaced by a return to core activities. But as the Progress experience shows, small companies may be no less prone to over-ambitious diversifications from their core activities than large. Larger quoted companies may be more likely to diversify by acquisition while small businesses will start up new activities from scratch but the results are often the same. The small firms' lack of financial and managerial resources does, however, make them especially vulnerable.

Part of the problem facing the Wongs was that they were unsure of just how fast the market for their services would grow. But as office furniture systems have increased in sophistication and cost, manufacturers and project managers have shown themselves increasingly ready to employ specialist installers.

Fashion jewellery, by contrast, was a well-established sector when Jasbir Anand set up in business in London's Soho in 1978. Yet market focus has been an issue which has had to be addressed by Anand Fashion Jewellery on its way to its current turnover level of £1.65m.

Anand started with a small shop acting as a wholesaler to London jewellery stores. Trade buyers would walk in off the street to buy six or a dozen pieces of a particular item of fashion jewellery. When business prospered and working conditions became cramped, Anand bought the freehold of a 7,000 square foot warehouse in Wembley, west London.

Jasbir Anand sent his son Ravinder to run the growing import business carried out from the Wembley warehouse while he stayed to run the Soho shop. But running what was still a very small business from two locations put intolerable pressures on the two-man management.

From just being a wholesaler Anand became a large importer of fashion jewellery from the Far East. Increasingly it was doing business with

large retailers who would place orders for 100 or 200 dozen pieces. It had to decide whether to remain with the small customers with which it had begun or to move upscale to handle the large buyers.

The two Anands set down one Saturday morning 18 months ago to discuss strategy with their accountant, Shobash Thakrar, a partner in the firm of Blackstone Franks. They decided to sell the Soho shop to concentrate on serving the larger customers who visited the warehouse. "The warehouse is big business while the shop was small business," comments Jasbir Anand.

Further advantages of this move were a reduction in overhead costs - staff numbers fell from 10 to seven - and the concentration of all the employees in one location where Jasbir Anand, who was better at managing people than his son, could oversee the whole operation. The switch from small customers, who paid cash, to large stores, which demand credit terms, has, however, put pressure on cash flow, Anand says.

Having identified the larger stores as his main market, Jasbir Anand has acquired a factory in nearby Acton where warehouse space will be rented to other fashion jewellery wholesalers. The aim is to create a centre which should attract more jewellery buyers than the individual firms could on their own.

For G Etinger, a 50-year old leather goods manufacturer, market focus became a matter of survival in a declining sector. Competition from low-cost producers in the Far East and from more upmarket manufacturers in Spain and Italy has wiped out many UK leather goods companies in recent years, says Paul Etinger, a director.

Over the years the company had broadened its range of products until it stocked giftware items made of metal and plastics as well as housewares alongside its traditional leather products. It was no longer per-



Darryl and Gregory Wong: returned to profit

ceived by department store buyers as a specialist leather goods company, recalls Etinger.

At the same time many of the small retailers which made up its traditional customer base were closing. To survive, G Etinger had to concentrate on the top end of the market and on the bigger stores.

"First of all we had to focus the business," says Etinger, who joined his father and brother in the family firm two years ago after gaining an MBA at INSEAD, a French business school, and three years spent marketing marine paints for Courtaulds, the chemicals group.

"That sounds like a bit of a traditional market was dying and we had to go somewhere. We had to cut out the knick-knacks. The buyers were becoming very specialised and were starting to see us as general merchandisers."

Shrinking down the company's product range was a difficult decision for Gerry Etinger, the 70-year old chairman, but the cheaper items were gradually eliminated to concentrate on the more up-market leather goods. Most of the smaller customers who made big demands on the company's administration but only placed

small orders took their own decision to move to other suppliers. Like Anand, G Etinger also moved out of the centre of London to more roomy premises in Putney.

The next step was to start designing ranges exclusive to G Etinger to give the company an edge over its up-market rivals. One of the firm's most successful ranges has been a traditional British design for items such as brush and manicure sets and flasks in shoulder cases, says Paul Etinger, who has concentrated on design. Increasingly the company, which employs 19 people full-time and up to 30 outworkers, makes to order, he adds.

The impact of these moves has been a 20 to 25 per cent annual increase in turnover over the past three years to a total of more than £1m this year.

The experience of Progress, Anand and G Etinger shows that by concentrating on a core business, a company can reap the benefits of its expertise in a particular market niche. "We haven't reached our peak in the furniture installation business," says Gregory Wong. "We would be very cautious about diversifying in future."

## The start of a dialogue

Charles Batchelor on the small firms minister's plans

There appears to be little imminent prospect of major new programmes to back small businesses, according to Eric Forth, small firms' minister at the Department of Employment.

"I do not regard the number of initiatives I dream up as proof of my ministerial effectiveness," Forth told a press briefing during a one-day conference "Keys to Growth," in London last week. Forth replaced Tim Eggar as small firms' minister in the ministerial reshuffle of last July.

The conference, billed as allowing owner-managers to discuss issues they saw as important to success, was intended as the start of a dialogue between entrepreneurs, small business advisers and government, Forth said.

"The messages from the conference will be used for the development of small firms policy and to provide important advice for other small businesses," Forth commented.

Some of those involved in the small business sector have, however, expressed concern that nothing is being done to help the many small busi-



Eric Forth: not convinced

nesses which were set up during the 1980s but which are now being adversely affected by high interest rates.

Starting up in business involved risk and an element of possible business failure, Forth told journalists. "The rate of business start-ups has been remarkably well sustained," he added.

If people were prepared to accept higher taxes then more money could be provided for

small business, Forth said. He did suggest, however, that there might be funding for sharply-focused programmes such as SMART (the Small Firms' Merit Awards for Research and Technology).

One idea promoted by the British Venture Capital Association - for government subsidies to help finance the management of new seed capital funds - appears to be making little progress. "I want more evidence of the need for government help for seed financing," Forth said. "I am not convinced there is a lack of finance for small businesses."

Areas which Forth believes do warrant further study are the scope for encouraging small business owners to sell equity in their companies in preference to raising loans and the possibility of encouraging private individuals to invest in small businesses.

One "very tentative idea" was for the government to back the creation of a marriage-brokerage service for investors and entrepreneurs. But Forth said he was keen to avoid introducing "the dead hand of government."

## Getting everything taped

Charles Batchelor reports on some video and audio training aids

How to make business training more easily available and more attractive to the overworked small business owner? Many entrepreneurs lack the time to attend scheduled training sessions or if they do have the time, are resistant to the "talk and chalk" teaching approach.

The response of the educators and trainers has been to produce a range of training videos and audio tapes which can either be used at home, in the car or to increase the variety and appeal of formal training sessions.

The latest offerings include: ● Opening the single market, a two-part programme devised for home study by The Open University which demonstrates how to plan, research and cost an effective strategy for Europe. Part one, A Bigger Europe for the Smaller Business, describes the main changes resulting from the single market which will affect smaller firms. Part two, Cost-

ing the Options, helps users create a properly-costed business plan.

Contact Customer Services, Business Development and Marketing Office, The Open University, Tel 0908 653473/655182. £150.50 inc VAT for one two-part pack. Discounts for larger quantities.

● I've started so I'll finish makes use of television Mastermind presenter Magnus Magnusson to present a six-part video pack on subjects such as market research, advertising and promotion and managing expansion. Devised by the Doncaster Enterprise Agency, this programme is intended for use by trainers involved in the day-to-day advising of small and medium-sized firms.

Contact Derek Evans, Training Director, Doncaster Enterprise Agency, Tel 0802 946320. £375 inc VAT.

● Staying power makes use of eight small businesses which have been trading for at least three years to illustrate good

management practices. Designed by Into Business, a Liverpool-based enterprise agency, this programme is intended for use by trainers as part of a half or full-day training course.

Contact Into Business, Tel 051 709 2375. £155 plus VAT.

For the manager keen to gain his independence advice is available in the shape of two audio tapes. ● Management buy-out review. A 40-minute audio tape produced by a bi-monthly magazine of the same name with advice on how to stage a buy-out and select advisers.

Contact Management Buy-out Review, Tel 071 490 4777. £8.75 inc VAT.

● The Electra guide to MBOs and MBEs. A 60-minute guide to the problems and pitfalls of staging buy-outs and buy-ins produced by one of the larger providers of funds for these deals.

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## ARTS

## Elliott Carter's new trio

ALICE TULLY HALL, NEW YORK

Although Elliott Carter lives in New York and would in any international poll probably be acclaimed as the world's greatest living composer, his native city does him little honor. No local performance of his latest big work, the *Violin Concerto*, has been billed yet. First heard in San Francisco in May, it will soon have been heard all over Europe (in London in February), but not in New York. And the New York Philharmonic plays him very seldom.

But the chamber pieces do get done, and the latest of them, *Con Leggera Penosa*, reached New York soon after its Italian premiere. It's a five-minute trio, for violin, viola, and cello. The subtitle is "Drammatico, Solo, Calvo," and the piece was commissioned by the Institute for Musical Studies at L'Accademia di Santa Cecilia, Rome, for performance at the presentation of a prize, honoring Calvo, for the best musicalological paper of the year.

Calvo was a writer playful and penetrating, elegant and erudite, and Carter's "With Thoughtful Lightness" reflects him. It is a captivating composition of grace, charm and integrity. The score is set out in 4/4, but clarinet, violin and cello play in a 3/4 metrical ratio that keeps things moving in a fluid, animated way. Each

instrument, as ever in Carter, has its distinctive personality, its distinctive interval preferences. From time to time chords build up and pseudo-canon starts to emerge, but individuality takes over, and the discourse is riveting.

This is a successor to other "occasional" chamber pieces - *Biconsonanza* for solo violin, dedicated to Petras, *espiro* for flute and clarinet, dedicated to Boulez, and *Enchanted Preludes* for flute and cello, dedicated to Ann Santer - that have outlined the "occasional" to become standard contemporary repertoire. And *Con Leggera Penosa* will surely be joining them, for like them it recalls the remark of a Renaissance humanist admiring a powerful, perfectly fashioned bronze statue: "Small to the eye but a giant to the mind."

The excellent New York players were Ida Kavalian (violin), David Shifrin (clarinet), and Fred Sherry (cello). Sherry, an event-goer, is the new artistic director of the Chamber Music Society of Lincoln Centre, and he has revived what was becoming a moribund group (the Sight-Singing Society of Lincoln Centre, for the most part). There were young people in his Alice Tully Hall audience.

Andrew Porter

## Cheltenham Festival

The stars of the Cheltenham Festival of Literature were saved for the last few days. Thursday morning began with A.S. Byatt, her Booker award barely in the bank, sharing the platform with Marina Warner, a Booker nominee in her time, to discuss the finer meanings of "romance". Their discussion went as far into the matter as fairy stories, in early enthusiasm of both of them.

That evening came the Poet Laureate, Ted Hughes, who was billed to talk about Shakespeare; but he also traced the origins of the legend of *Venus and Adonis*, Shakespeare as we know it, Ovid too, but based on the typical "mis-match" of *Adonis*, who would rather hunt than woo the willing goddess. It sounded like the first half of a longer essay: The poems of another Poet Laureate, Cecil Day-Lewis, were read next day by Jill Balcon, with special understanding.

Also on Thursday came *Interpreting*, some fragments of modern Czech writing (translated) emphasizing the audience's occupation of what is now Czechoslovakia; and D.J. Enright's account of his preparation of the Oxford Books of *This and That* - next spring. Friendship began with a talk on *Flashman* by Andrew Paul Russell, which I found unexpectedly interesting for its non-British angle, though he dealt wisely with British poets. He included the Vietnam war as well as the World War.

On Friday afternoon, poet, George Mac Donald Fraser talked about *Flashman*. He claimed that *Flashman*'s adventures depended on his having chanced on a suitable event capable of insertion into *Flashman*'s calendar. After him, we had Dido Davies, biographer of the failed, genial William Giscard d'Estaing. One constantly receives to read Giscard and somehow one never does. Miss Davies reminded my resolve. Paul Foot, Friday evening, is a particular Cheltenham favorite, though he never fails to leave his audience's ignorance. His invigorating talk explained how a belated reading of *Don Juan* had changed his view of Byron.

B.A. Young

## An admirable failure

William Packer reviews William Coldstream at the Tate Gallery

There is no doubt that William Coldstream, who died in 1987 shortly before his 75th birthday, had earned the distinction he now enjoys of a full retrospective exhibition at the Tate (until January 6 sponsored by British Steel). It comes neither too soon nor too late. As Lord Melbourne said of George Crabbe: "I am always glad when one of those fellows dies, for then I know I have the whole of him on my shelf, or the walls as the case may be."

Coldstream was much mourned and is now much memorialised, for he was the best of company. He was a great figure in the British Art World, Professor at the Slade School from 1949 until 1975, Trustee of the Tate, member of the Advisory Committee to the Council that the reform of the English Art Schools set in train by the +Coldstream Reports+ of 1960 and 1970 were perhaps more far-reaching than even he could have imagined, or wished.

In his time there have been no one more generally influential than he, and in a very British way, that public importance is also taken to be a quality of the private artist, this present show is no less interesting for that. The only question is: does it leave us any the wiser? And the answer is probably no. How could a man so committed in principle to the personal integrity and private responsibilities of the artist, have had so powerful a voice in deciding the future direction of the public education of the artist? How was it that someone so assertive and positive in his influence could have been so modest, introspective, tentative and uncertain in himself as an artist? Coldstream himself would have been first to savour and remark the ambiguities, uncertainties and contradictions he has left hanging in the air.

The answer he might have admitted, if only to himself, is bleak enough in its resignation: that none of it really matters very much when set against the essential, impossible reality the artist inevitably addresses in his work. He once remarked to me that art education nowadays went on too long, that his three years at the Slade in the 1920s had been more than enough for him, that "the longer you remain a student, the longer you go on producing student work." It would always be better to face up to the reality of what had been taken on.

He certainly found it difficult enough himself, as this exhibition all too painfully bears out. He was never a naturally fluent painter with an instinctive feel for paint and colour, and what felicitous passages there are seem always to have been achieved in spite of himself. Every conscious mark was fought for and hard won, and it is a sad comment on the visual puritanism of the English art public, that such evident struggle and sheer hard work should so generally have been taken as the mark of a great artist.

What was marked, if anything, was a kind of despair. The chimera he set himself to chase was that of the accurate pictorial depiction of whatever he set up before him - model, still life, landscape. Everything was to be marked and registered in chair and model, throne each in its fixed position and relation to the other, everything checked and measured, and checked again. But life goes on, things move and breathe and change, hour by hour, day by day. Nothing can be fixed, and even the most perfect model will never resume the pose in quite the same relation to the artist's eye. The flower blooms and the leaves drop. Paintings take time, and with every fresh registration of knee or breast or nose, the realisation is borne in on us, as on the artist himself, that there can be no end to it.

The first and only previous major show of Coldstream's work was the retrospective set around the country by the Arts Council in 1982. In the critical climate of that time, charged with the enthusiasm for abstract expressionism on the one hand and Pop-art on the other, his stance seemed radical and brave, his paintings the image of integrity and steady, conscientious pictorial achievement. I remember it well, but what I and so many others then took, by that contrast, for accuracy of perception and visual record, now for the most part seems thin and hesitant. Even those most apparently resolved and statuesque of his works, the Slade nudes of the 1950s, set in the simple theatrical space of the life room, give themselves away in detail everywhere

left unconfirmed, indicated, altered and finally given up. Always the method, the obsessional measuring and checking, gets in the way, bringing the matter back not to an image free at last of its process, but one chained to it for ever.

But if Coldstream was in the end a failure, there is much to admire in that failure, including the desperate courage to stick at what he was too intelligent not to know was quite impossible on under any terms. Even as prisoner of his method, there remains to that self-imposed regime the quality of an honourable imprisonment, and from time to time throughout his career we see him sub-consciously allowing himself his own parole. We know he will always go back, for he has given his word, but briefly we



'Reclining Figure' 1980-81 by William Coldstream. Oil on canvas

The first and only previous major show of Coldstream's work was the retrospective set around the country by the Arts Council in 1982. In the critical climate of that time, charged with the enthusiasm for abstract expressionism on the one hand and Pop-art on the other, his stance seemed radical and brave, his paintings the image of integrity and steady, conscientious pictorial achievement. I remember it well, but what I and so many others then took, by that contrast, for accuracy of perception and visual record, now for the most part seems thin and hesitant. Even those most apparently resolved and statuesque of his works, the Slade nudes of the 1950s, set in the simple theatrical space of the life room, give themselves away in detail everywhere

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## Frans Brüggen

QUEEN ELIZABETH HALL

For the first concert of their South Bank season on Friday the Orchestra of the Age of Enlightenment was conducted by Frans Brüggen, and if any of their subsequent appearances comes close to matching its excitement and panache it will be a remarkable achievement indeed. Brüggen is an exceptional musician: an aesthetically of impeccable pedigree, and an interpreter with the vision and belief to use the period-instrument aesthetic as a mere beginning rather than a re-creative end.

With both his own Orchestra of the 18th Century, and in guest appearances with the OAE, Brüggen obtains playing of self-conscious virtuosity that takes the breath at every turn. Here, in Haydn's Clock Symphony (No 101 in D) and Beethoven's Seventh, the string articulation (a hefty band, founded upon four double basses) was invariably lucid, the woodwind playing (with principal flute and oboe outstanding) always phrased with supple intelligence. The trust in his playing is implicit, with no sense of regimentation; players can be relied upon to be naturally expressive (just, one feels, as they must have been in Classical times) while the conductor takes care of the symphonic architecture.

The result is constantly surprising, constantly illuminating. Brüggen's epic view of Haydn's Seventh has already been heard in London with the Orchestra of the 18th Century; the theatrical sense of an unfolding drama, the way of accommodating every detail so that it contributes organically to the overall structure, and the sheer physical presence of the sound - vivid brass, woodwind solos with an almost sculptural fullness - draw the listener into the performance in a way that very few other conductors could contemplate. A most unlikely comparison is with Carlos Kleiber; temperamentally and musically they may be utterly different, yet the results they obtain from orchestras are similarly balanced on the knife edge of

what is technically and dramatically possible, and similarly compelling. The Haydn symphony demonstrated that the same excitement can be drawn from a much more confined Classical score too. The plunge into the minor at the heart of the Adagio produced the kind of fusion that 18th-century audiences must have drawn from it, while the Trio's rustic wind-band tone seemed like a real intrusion from another musical world rather than just a tame anecdotal effect. So Brüggen manages to have it both ways, able to return his audience to the sound world of the 18th century and to restore that period's expressive vocabulary, while retaining the intellectual rigour of interpretation of a thoroughly 20th-century mind. It is a very special achievement; he merits a place in the highest rank of contemporary conductors, regardless of performing creed.

Andrew Clements

## The Wake

RUSH THEATRE

"In writing of the night," said James Joyce, "it could not be done with words in their ordinary relations." So in *Finnegans Wake*, which explores the dreaming mind, he invented a language of his own. It is based on English but distorted by misspellings and continual punning. When they first tackle it, most readers find it completely unintelligible, apart from odd phrases, and they give up after about 20 pages. But there remains a devoted band of Joyceans who regard *Finnegans Wake* as one of the greatest novels ever written. These include Anthony Burgess, whose edition *A Shorter Finnegans Wake* (Faber, paperback), containing an outline of the plot, is strongly recommended to the first-time buyer.

They also include the actor and director Paul O'Hanrahan, who has adapted selected sections of the novel for performance as *The Wake*. This dramatic version takes the form of a non-stop series of dialogues, lasting 90 minutes, which he and Chris Bilton perform with some large-scale children's tricks as the moveable setting. The show has an ingenious lighting plot, and accompanying piano music by John Dunne. It was presented at this year's Edinburgh Fringe where it was well received and now it has come for a short season to the Rush Theatre.

The main question it raises is - does the book become much more accessible and comprehensible when it is performed like this when it is merely read? And the answer has, alas, to be no. The same insuperable difficulties remain; so much so that about a quarter of the capacity audience on a Saturday night trooped out before the end.

However, this does not by any means invalidate the experiment, which is fascinating to watch and conducted with remarkable versatility of voice and body-language. Occasionally, as these fluent

## Les Troyens

ZURICH OPERA HOUSE

This is the third European production of Berlioz's great Virgilian music-drama in six months: not bad for a work which for more than a century was considered too exacting to stage. And with greater familiarity comes a deeper appreciation of its contours and overwhelming beauty. Zurich proves that *Les Troyens* is one of those rare operas whose unassailable greatness dwarfs whatever blemishes it suffers in performance - in this case some odd casting, a haphazard production and liberal cuts in the score.

The staging was by Tony Palmer, whose career in opera is rapidly gathering momentum on the continent. But *Les Troyens* lacked the imagination and concentrated impact he brought to the Zurich *Peter Grimes* last year. The visual framework (decor by Emanuel Peduzzi, costumes by Jacques Schmidt) was traditional - an open stage, a vast blue backdrop framed by a few stone columns, and an elaborate, often exotic, cast of gowns and robes. But instead of using this as the basis for some sharply-focused dramatic ideas, Palmer filled the evening with functional stage processions and superfluous technical effects. The result was a grand operatic pageant, hopelessly stagy.

The Trojan horse, wheeled on in a cloud of dry ice, looked like a cheap classroom exhibit. There were hideous amplifications, including the horn solo in the Royal Ballet's production of the chorus of "Tale" and a series of crowd noises which sounded like a relay from the theatre canteen. The Hunt itself, described in the programme book as a "wild sexual nightmare", was a mish-mash of couples chasing around the darkened stage, while laser lights flashed out into the audi-

torium. The banal Act 4 ballet, ending with a snake dance, could have fitted any number of 19th century French operas. The Sailer's Lament was presented with as much sense of context as an audition aria. Only the Hector scene - with shafts of blue and green light piercing the swirling gloom - succeeded in providing a creative response to the music.

Palmer evidently decided that three and a half hours of *Les Troyens* was enough - nearly an hour shorter than the Berlioz Festival production at Lyons in 1987. There is really no justification today, especially in a theatre used to regular Wagner performances - for anything shorter than full measure. Ralf Welker conducted a stirring, surging account of the score - precise, eloquently phrased, with all the opulence that was lacking on stage. The chorus sang with lusty confidence.

Andrew Clark

## The Pixies

ACADEMY, BRUXTON

For that vast throng of white students who can't abide the current metronomic pre-attitude camp followers of "seventies punk", who look back nostalgically to the early "indie" scene when bands, seemingly straight off the squat, expressed youth alienation through dis-chord, feed back and verbal abuse, help is at hand from America. The Pixies, a Boston quartet, keep alive the pure tradition of punk.

Of course, as they proved at the Academy on Saturday night, they have sophisticated the music through the sound barrier. Out is the brutally ugly, the spitting, the sexual posturing, the shock of the sperm. Rather, The Pixies have kept the short sharp bursts of energy that characterised punk, but refined it into the mainstream of pop. Before the abrupt endings to their songs the music seems to be straying into melody. There is also an untidy variety to the repertoire, a blaster like "Tony's Theme" being followed by the tender "Evelina". In the old days it was one pitch, one speed, blast. This is the new wave curled into style. And it suits the older audi-

ence. Were these well fed and well bred young twenty year olds the future for the alienated camp followers of "seventies punk"? There were plenty of head bashers at the front but from many in the packed audience you got the impression, from their cool but keen detachment, that they were there because it was smart to be where The Pixies were. For once the Academy, with its ornate Palace of the People interior, looked a suitably stylish setting.

The Pixies do not give much. Bassist Kim Deal shouts some incoherent encouragement to the shakers crumpling the stage but the bulk of the front man, Black Francis, was largely immobile and the guitarist made little attempt to hide the fact that he is a competent musician. Indeed The Pixies were agreeably entertaining, a cross between Velvet Underground and Echo and the Bunnymen, whose disappearance has left a void which has not really been filled. The Pixies were a haven of controlled passion, of designer power, at least compared to the mayhem erupting in the Brighton streets outside.

## ARTS GUIDE

## OPERA AND BALLET

**London**  
Royal Opera, Covent Garden: Verdi's *Aida* receives a first-rate new production at Covent Garden. The new production is superbly directed by Edward Douglas-Scott, the production by Edward Douglas-Scott is superbly directed by Edward Douglas-Scott. The new production is superbly directed by Edward Douglas-Scott. The production by Edward Douglas-Scott is superbly directed by Edward Douglas-Scott.

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**Paris**  
Chatelet. Ballet Frankfurt in William Forsythe choreography featuring theatrical illusions to Thom Williams music presents *Lamb's Theorem*. (4028940).

**Amsterdam**  
Muziektheater. The National Opera and Ballet of the Netherlands (Van Damme/Schot), *Four Dances II* (Van Schayk) and a new ballet by Jan Lincx. The Netherlands Opera in Mozart's *Entführung aus dem Serail*, directed by Ernst Polzer. Netherlands Chamber Orchestra is conducted by Hartmut Haenchen. (355 455).

**The Hague**  
AT&T Deutscher Theater. Netherlands Chamber Orchestra in *La Cithéridale enlaidie* (Kilian/Dubussy) and the world premieres of new ballets by Philip Taylor and Jean-Christophe Maillot. (360 4630).

**Moscow**  
Scala Ballet Company. Duo Oriella Dorella and Laurent Rillaud with the original Benois acts, conducted by Michael Sazon (Tue, Wed), and with Carla Francot as Giselle and Zoltan Solyom as Albrecht (Thurs). Teatro alla Scala (50.91.26).

**Rotterdam**  
Teatro Comunale's autumn ballet season is Rudolf Nureyev and Friends, with works by choreographers Flemming Flindt, Maurice Béjart, Jose Limon, the 18th century master August Bournonville and Nureyev himself. Palazzo del Congress (645511).

**Florence**  
Messina's ballet, *Vincenzo Van Gogh*, performed by the Maggio Musicale. Teatro della Compagnia. (277823).

**Trieste**  
Franco Grimaldi's production of Mozart's *Don Giovanni*, directed by Josef Svoboda, conducted by Wolfgang Rennert. Teatro Verdi (581945).

**Pisa**  
Paisello's *Barbieri di Siviglia* conducted by Alessandro Pinzauti, with Lucetta Bizi, Ernesto Palazzo and Marcello Lippi. Teatro Verdi (52494).

**Rome**  
The ESO (*Un po' ottimista*) Dance Theatre of New York led

by Daniel Barenboim with their first full-length work, *Time Out* rather too long, but with splendid lighting effects by John Tunstall. (383304).

**Berlin**  
Opera. *Lohegrin* in Götze Friedrich's production has a strong cast led by Rüdiger Eger, Eva Johansson, Andrea Schmidt, Jan-Henrik Böttcher and Peter Seifert. *Arabella* stars Lucia Popp in the title role, *Madama Butterfly* features Olivia Stapp, Marcia Beland and John Sander. *Fidelio* in Jean-Pierre Ponnelle's production. Also *Kaya Kabanova*.

**Hamburg**  
Opera. *Carmen* convinces thanks to Alicia Nunez outstanding in the title role. *Die Zauberflöte* turns up with a new cast led by Amanda Hähnel, Dawn Upshaw, Robert Gambill and Franz Ferdinand. *Elektra* highlights the week with two Strauss specialists Eva Randova as Klytemnestra and Gwyneth Jones in the title role. Two John Neumeier ballets and a Gustav Mahler programme round off the week.

**Frankfurt**  
Opera. Guest appearance of the Tokyo Kamikaze theatre with traditional dance and songs. The controversial Arie Zinger production of *Aufstieg und Fall der Stadt Mahagonny*, *La Bohème* in Volker Schlöndorff's production features Elina

Coelho, Hildegard Heichele, Alejandro Ramirez and Albert Orlandi.  
**Bonn**  
Opera. The successful Graham Vick *Elektra* production has a first-rate cast led by Doro Ratzl, Ingrid Wenzel, Mariella Devia, Stephen Dupont.

**Cologne**  
Opera. *La Finta Giardiniera* is well performed by Eilary Griffiths, Teresa Ringholz, Janice Hall, John in Pierre and Jake Gardner. *Orfeo ed Euridice* is wonderfully sung by Kathleen Kuhlmann and Jung Lee in the leading roles.

**Munich**  
Opera. The successful Nicolaus Lehnhoff *Ring* cycle includes this week: *Das Rheingold* with Marjatta Lipovsek, Nadine Secunde, Robert Hale. *Die Walküre* with Sabine Hass, Hildegard Behrmann, Manfred Schum, Martti Salminen, and *Siegfried* with Rene Kollo, Julie Kaufmann and Hildegard Behrmann, all conducted by Bruno Bartoletti. Also *Die Meistersinger* and *Die Lorelei*.

**New York**  
Metropolitan Opera. James Levine conducts the premiere of Piero Fagagnoli's production of *Un Ballo in Maschera* with Aprile Millo, Luciano Pavarotti and Juan Pons. *Boris Godunov*, conducted by Yevgeny Svetlanov, features Stefania Toczyska, Gary Lakes and John Shirley-Quick in August Everding's production. Guido Aronow-Marsan conducts

October 19-25

**Rigoletto** with Jerry Hadley in Otto Scheink's production. (382 5000).  
New York City Opera. John Lehman's production of *Elektra*, conducted by Arthur Fagen, features Sherry Woods as Lady Macbeth, Martin Thompson as Lohengrin, and Peter Brown as Flunkett. *Schönberg's Moses und Aron* is conducted by Christopher Keene in Hans Neugebauer's production. The week also includes *La Fanciulla del West* in Frank Corsaro's production conducted by Arthur Fagen and Scott Ellie's production of *Sandhya's A Little Night Music*. New York State Theatre, Lincoln Center (570 5570).

**Washington**  
Monnaie Dance Group. Mark Morris brings his exciting dance troupe to Washington with one local premiere among his familiar repertoire. Eisenhower, Kennedy Center (467 4600).

**Chicago**  
Lyric Opera. Harold Prince's production of *The Girl of the Year* is directed by Robert Alton, conducted by Bruno Bartoletti, with Marilyn Zeman as Minnie and Plácido Domingo as Dick Johnson. Wolfgang Brendel has the title role in *Eugene Onegin*, conducted by Bruno Bartoletti. Pier Luigi Samaritani's production, with Anna Tomowa-Sintow as Tatiana and Gosta Winbergh as Lensky. Civic Opera House (334 2244).

**Tokyo**  
Deutsche Staatsoper, East Berlin. Der Rosenkavalier. Tokyo Bunka Kaikan (235 1861).

## FINANCIAL TIMES

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## To be in Emu, or not to be

TODAY'S COMMONS debate on the UK's entry into the exchange rate mechanism will, undoubtedly, show wide support for a decision that came too late. But ERM entry is yesterday's issue. It is fully consistent with past British form, therefore, that the debate will also reveal strong opposition to any move, let alone a rapid one, towards economic and monetary union.

A bet that the UK will, none the less, join Emu is a safe one. Quite apart from the usual feeling over being left at the starting gate, there are practical reasons for going in deeper, now that the first step has been taken.

ERM membership does not merely mean following the Bundesbank's monetary policy, but means doing so at a real interest rate dictated by the persistent exchange rate risk. One reason British politicians, including Mrs Margaret Thatcher, have learned to love (or at least to tolerate) the ERM is that it seems to offer disinflation with lower interest rates. But durably lower interest rates require a more credibly fixed exchange rate.

The first step in that direction will be early movement to parrow bands within the ERM. The second step will be acceptance of a single currency. That will be forced upon the British government by the walls of businessmen about the costs of foreign exchange risk and high interest rates. Furthermore, the British will eventually decide that a 12th share in the Eurodollar would be better than none in the Bundesbank.

## 'Good thing'

The decision in favour of the Delors approach to Emu is likely to be taken for such reasons as these, not on the basis of any meticulously argued economic case. For any one member country, even one as recalcitrant as the UK, that is inevitable. But it would be good to know that Emu really is a "good thing" for the EC.

In its publication "One Market, One Money" and the earlier Cecchini report on the single market, the Commission shows how imaginatively it can apply economics when it finds it useful. One can only wish that the same principles were applied, with equal vigour, to other areas of Community policy, such as anti-dumping and the common

agricultural white elephant. However, self-serving its analysis, the Commission makes a powerful case for Emu. But it remains a speculative one. This is not surprising. According to OECD calculations, real incomes are higher in the US than in any other country, which suggests that Emu is, indeed, economically valuable. But, within Europe, one cannot ignore the wealth enjoyed within some small currency areas, most notably by Switzerland.

The Commission notes that "the principal risk informing a monetary union is that involved in losing the possibility to change the nominal exchange rate of the adjustment will fall on labour markets, which will, unlike those within the US, not be well integrated."

## Central issue

What does the Commission have to offer on this central issue? In its paper, "Economic and Monetary Union", it remarks that "the Community should also seek to give concrete substance to the Social Charter while enhancing the capacity of national labour markets to adjust to competitive pressures in an efficient way." But how is this to be done when the first part of its goal conflicts in so many ways with the second?

Such difficulties are likely to be ignored. Unless the Bundesbank succeeds in stopping it, Emu on the Delors model will be accepted because it is less problematic for several pivotal member countries than a long continuation of the ERM without exchange controls and realignments. For the same reason, the British alternative to the Commission's approach to Emu is likely to be rejected as, in essence, the present ERM with knobs on.

For the UK the choice will probably be made between being inside Emu or outside it. If so, it will choose the former. It may argue about the speed of transition and the need for prior economic convergence. It may complain about the implications for sovereignty. But it is likely to find, like France before it, that its present state as ERM member is too uncomfortably betwixt and between. The UK will accept Emu, because the alternative - being in the ERM, but outside Emu - will be worse.

## A worthwhile training aid

VOUCHERS for training are in vogue. Mr Michael Howard, secretary of state for employment, rightly praised the Training and Enterprise Councils (TECs) for their plans to use vouchers as a means of extending the provision of vocational training to a wider segment of the workforce. Many individual TECs appear willing to provide a combination of long-term vision and short-term action in seeking to reverse Britain's woefully inadequate training record.

By contrast, the government appears long on rhetoric and short on substance. Mr Howard could not back up his support with a commitment to maintaining funding for the TECs in real terms over the next year. The need to expand structural investment in training is, instead, likely to be reduced in response to a purely cyclical increase in public spending. This is folly.

The government has too often viewed training as a means of reducing unemployment rather than of upgrading the skills and mobility of the workforce at large. The first pilot voucher scheme, to provide about 10 per cent of school leavers with credits of £1,500 to finance vocational training, begins next April. The scope of this pilot scheme is too limited. Furthermore, before the pilot scheme had even begun, the government announced that future funding for youth training would be cut back, because the projected number of school leavers had declined.

## 'Dead-end' jobs

But training should not end at 18. A government study earlier this year found that one third of adult employees had received no training since leaving school. Recent studies conducted by Full Employment UK, an employment consultancy, suggest that many of the low-paid and young, long-term unemployed perceive the opportunities available to them as "dead-end" jobs - poorly paid, with little prospect of training or promotion.

In fact, many training courses, in office skills and basic trades, are available at surprisingly little cost. But

low-paid workers are often unaware of the opportunities. To address this problem, Dorset TEC has decided to offer low-paid workers vouchers worth £50, which can be used to buy employment counselling and perhaps some basic proficiency tests.

## Little incentive

None the less, training plans are of little use if the training is too costly for low-paid workers. Employers have little incentive to provide financial support for training if all their competitors are not required to provide it too; moreover, the problem for many low-paid employees is that their ambitions stretch further than their employers hold for them.

Here training vouchers come into their own. The South Cheshire TEC is considering a scheme to give low-paid workers vouchers that would cover two-thirds of the cost of the training courses of their choice. The remainder of the cost would be financed by an interest-free loan from the TEC. The justification for sharing the cost of training with the trainees is twofold. First, it would make the very limited funds of the TECs go a little further. More important, the trainees would have a stake in making their training a success.

Such schemes would not provide the solution to Britain's training needs on their own. To be effective on a national scale, they would require an infrastructure of counsellors, trainers and courses that does not yet exist in sufficient scale and quality. In addition, many employees cannot realistically hope to undertake extensive training courses in their spare time. The widespread introduction of training vouchers would, therefore, strengthen the case for a statutory training entitlement.

Training vouchers are no panacea. But creative thinking by the TECs deserves to be matched by a substantial financial commitment from government - if that is, the government wishes to do more than tinker with the unemployment figures.

The Gulf crisis has entered a phase of genuine phoney war.

The US has long signalled October 15 as the rough date when the build-up of forces confronting Iraq in the Gulf would reach "critical mass". Although the multi-national land forces continue to be reinforced in Saudi Arabia and the field commanders may still need a few more weeks to feel fully confident, from now on the military option against President Saddam Hussein of Iraq becomes serious.

For the first time since the August 2 invasion of Kuwait, Iraq is faced by two credible prongs of international action - a United Nations enforced land, sea and air embargo combined with the ultimate threat of military action. The real danger of war lies in the mismatch between the limited time available to take advantage of the window of opportunity for military action and the longer period necessary before sanctions take effect.

During the very early days of the invasion of Kuwait, Mr Saddam had to contend with the possibility of a US-led surgical strike. But since then Iraqi troops have been reinforced and become well dug-in, enabling Mr Saddam to behave in the most arrogant, uncompromising manner sure in the knowledge that no attack was likely before the end of October.

With the two options out in the open, the broad international alliance against Iraq, led by the US, will be obliged to define more clearly how it intends to achieve its objectives. The fourfold objective, as spelled out by President George Bush on August 8, is - "the immediate, unconditional and complete withdrawal of all Iraqi forces from Kuwait"; the restoration of Kuwait's legitimate government; preservation of security of the Gulf; and protection of foreign nationals.

Mr Bush's four objectives represent a fine political calculation of what Congress and the US public will wear, right now, says a senior official in the Bush administration. To expand on those aims would open up awkward questions such as the length of the conflict and casualties which the administration has no wish to face at this stage, especially before congressional elections in November.

However, the means of achieving these aims are blurred. The emphasis continues to be on a resolution by peaceful means. This was stressed by Mr Bush before the UN General Assembly on October 3. "Let me emphasize that all of us here at the United Nations hope military force will never be used. We seek a peaceful outcome - a diplomatic outcome."

Indeed having opted to use the Gulf crisis as a litmus test of the enhanced authority of the UN, both the US and its allies are obliged to cajole and persuade Iraq with a mix of sanctions and diplomacy for as yet undefined but presumably significant military force would continue to present a significant danger to regional stability.

General Brent Scowcroft, Mr Bush's national security adviser, has warned on several occasions against assuming the US can use the current crisis as a pretext for knocking out Iraq's chemical, biological warfare and nuclear complexes. Further, Mr James Baker, US Secretary of State, made clear in congressional testimony last week that the US must prepare for the possibility of life with Mr Saddam's machine intact. Never-

For the first time since its invasion of Kuwait, Iraq faces two credible prongs of international action. Robert Graham reports

## Beginning of the real phoney war



Bush faces a wary Congress; Saddam may overestimate his opponents' reluctance to fight

theless, hawks both in Washington and among the Gulf rulers believe an unstated objective must be the elimination of Iraq's capacity to destabilise the Middle East.

Mediation or negotiation with Baghdad has so far proved at best a frustrating exercise in disinformation. King Hussein of Jordan, with much at stake maintaining a precarious equilibrium in his neighbouring kingdom, jumped in quickly to negotiate but got nowhere. Tassir Arraf, chairman of the Palestine Liberation Organisation, has tried and failed to offer his good services. Mr Javier Peres de Cuellar,

## An Iraqi withdrawal could well prove a poisoned chalice for the international community

the UN secretary-general, was rebuffed at the end of August.

Only Mr Yevgeny Primakov, the special Soviet envoy of President Mikhail Gorbachev, seems to feel a deal could be struck with Mr Saddam. He came away from talks in Baghdad on October 6, saying Mr Saddam could be persuaded to withdraw providing a face-saving formula could be produced - part of which would be a commitment to discuss the Arab-Israeli conflict.

Such overt linkage is vehemently resisted by Washington and its allies who have sent forces to the Gulf. But separation of the Gulf crisis and the Arab-Israeli issue has become more

difficult in the wake of the international outrage over the killing of 21 Arabs in Jerusalem by Israeli security forces on October 4. President François Mitterrand of France also put on record at the UN a proposal that, if and when Iraq withdraws from Kuwait, the Palestinian question should be addressed. Those who have visited Baghdad recently say this is the sole proposal from the countries with forces ranged against Iraq to have stirred Mr Saddam's interest.

Against this background three scenarios emerge:

- Sanctions and the military build-up against Iraq are maintained indefinitely, eventually forcing Mr Saddam to withdraw or provoking his overthrow which would in turn permit an Iraqi withdrawal from Kuwait.
- Mr Saddam withdraws on his own initiative before sanctions are seen to have "worked" in order to avoid a military conflict. Withdrawal might be complete or merely to the lines of Iraq's newly extended province of Basra, Saddamiyat al-Mitla (which permits proper access to the waters of the Gulf and leaves the Kuwaiti side of the Rumailah oilfields in Iraqi hands).
- Military means would be used to recover Kuwait, the optimum time being between mid-November and early February. Almost certainly this would entail the destruction of Iraq's military machine and by the same token the Saddam regime.

Following the sanctions path has the attraction for the international anti-Saddam alliance of avoiding a bloody and costly war with unpredictable consequences. This is why it remains the principal plank of UN-directed policy. Yet of necessity sanctions require time. A senior Egyptian military intelligence officer told the Financial Times: "The embargo needs time... time must be given for sanctions to take effect... it is not yet a question of using military force." The intelligence officer mentioned February as the month in which it might be possible to assess whether sanctions were working, for at that stage Iraq should be approaching "zero point" in its capacity to withstand the international embargo. A recent study by the

Economist Intelligence Unit reached a similar conclusion. "There will be very severe economic dislocation and hardship imposed by the embargo, but in two crucial aspects - food and fuel - Iraq and (Iraqi occupied) Kuwait can survive for a number of months, perhaps until the end of March 1991," says the EIU report.

Given the departure of more than 1m foreign workers and nationals from Iraq and Kuwait, plus Iraqi stockpiles of essentials and the windfall stocks looted from Kuwait, this estimate of a six month breathing space may be conservative. But in the longer term, Iraq, unable to sell oil, its sole source of hard currency,

## Any overt linkage with the Palestinian issue is vehemently resisted by Washington and its allies

able consequences. This is why it remains the principal plank of UN-directed policy. Yet of necessity sanctions require time. A senior Egyptian military intelligence officer told the Financial Times: "The embargo needs time... time must be given for sanctions to take effect... it is not yet a question of using military force."

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## Directors out of focus

■ The Businessman Survey, by Research Services (RSI), may have to change its title before long.

The 1990 survey admits that women now account for 10 per cent of all those of middle or higher management status, an increase of a quarter since the last survey period two years ago.

Moreover, Dawn Mitchell, chairman of RSI, says that women have got a foot in the board room door to the extent that 6 per cent of women in business are now board directors.

The survey has also found that ninety-four per cent of the women board members are married. Which indicates, says Mitchell, "that power in the boardroom does not reside with single women from a successful married life as well."

But I have difficulty in getting into any sort of focus the sort of male board director that the new survey identifies. He is "between 35 and 64 years of age, which is hardly surprising. 'Neither too young nor too old', as the song goes."

To maintain his awareness of current affairs he will, also unsurprisingly, "Catch up with the news by watching television, and is also more likely than not to read a national daily paper."

As for leisure. Our man is reported to take his holidays "Both in the UK and overseas", when he can tear himself away from the desk.

RSI seems to be saying that board directors are more or less the same as the rest of us.

## Self-help

■ There is a last twist to this year's public spending round, which suggests that while the Treasury has been clamping down on budgets with one hand, it may yet be holding out for more spending with

## OBSERVER

the other.

The deal between John Major, the education secretary, and Norman Lamont, the chief secretary, means that all the major departments have substantially agreed their budgets. The small departments of Customs and Excise, however, is still refusing to settle.

Richard Ryder, the minister in charge of C & E, can be expected to be particularly awake to all the traditional gambits in the final negotiations.

He is himself paymaster-general and a Treasury minister.

## Hiscocks' ride

■ It is a sign of advancing years when even racecourse managers begin to look young.

At just 27 Tom Hiscocks claims to be the youngest in the profession. He is cutting his teeth this week on his first meeting at Nottingham Racecourse where he has just been made manager.

Such are the changes in the industry strives to be more commercially-oriented that Hiscocks has emerged as one of the first of a new breed of professional managers-in-training for a national company.

Earlier this year he joined Racecourse Holdings Trust, the company that owns the courses at Cheltenham, Wincanton, Newmarket, Aintree, Haydock, Warwick, Market Rasen, and Nottingham.

After assisting Edward Gillespie, who runs Cheltenham with such panache, Hiscocks has been given his own course.

His brief is to secure a good commercial return on the £1.5m investment about to be made there on a new development, including private viewing boxes, a new weighing room, and an office complex. Hiscocks has already packed ten years racing experience into his short career. He



started as a stable lad for the trainer Nick Gaselee at Lambourn, and went on to other trainers in Britain, Australia, Ireland, and the United States. He got five rides "under rule".

To gain commercial experience he went to work for the City of London marketing agency Hill Murray for two years and, while there, won a bonus by bringing in a prize new account, the British Bloodstock Agency.

He wants to sell Nottingham racing harder by holding more end-of-week and evening meetings in place of unfashionable Mondays and Tuesdays.

## Sweet pork

■ The sweet smell of success is wafting through the National Agricultural Centre's pig unit, where a special feed has reduced the stinging effect of ammonia in the air by more than 40 per cent.

The feed is said to be, "a unique combination of Yucca plant extract, microencapsulated bacteria, and enzymes, which work together to reduce

noxious gases in animal houses.

Pigs are, of course, omnivorous, and they did not turn up their noses at the new product, which is called De-Odorase.

The trials are being conducted by Colborne-Dawes Nutrition, a Derbyshire based animal nutrition company which has sole marketing rights.

## Press day

■ President Felix Houphouët-Boigny of Ivory Coast has said that his country will re-establish diplomatic relations with South Africa if he wins the presidential election due to be held next week.

That would make it only the second sub-Saharan state, after Malawi, to have an embassy in Pretoria.

Notably, however, that Boigny, aged 87, who has led his country for the three decades since independence, will win.

In preparation, therefore, a group of Ivorian journalists has been in South Africa at the invitation of the government there to see the former pariah state at first hand.

By all accounts the visit has been a wild success. The Ivorian delegation has been given the full red carpet treatment, including champagne-driven Mercedes, a sightseeing tour of the Cape, and dancing in the night clubs of Soweto.

At least one of the group, a journalist from the Ivory Coast government-controlled daily, *Fraternité Matin*, has been won over. "Jobannesburg's Sanctions" he enthused.

And what of apartheid, and the simmering civil war between supporters of the ANC and Inkatha? "I've seen no apartheid or violence. All that's just propaganda."

Down and out

■ A sign of the times in the window of a former dress shop in Birmingham. "We undersold everybody."

# Worries dent ERM euphoria

It's after the wedding that the bills normally flow in. And so it is proving to be Britain's entry into the exchange rate mechanism of the European Monetary System.

Sterling's central rate - 2.95 Deutschmarks to the pound - was proposed by the government and accepted with hardly a murmur on the weekend of entry. Indeed, expectations were widespread that sterling would shoot to the top of its permitted range of DM2.32 to DM3.12 in the system.

Since then, ERM euphoria on financial markets has ebbed. The pound slipped below DM2.50 last week. As Britain's economic prospects have darkened, there has been closer questioning of the implications of what may be Britain's biggest economic policy decision since the collapse of the post-war Bretton Woods system of fixed exchange rates in 1973.

While the government defends the pound's ERM level - and will do so again in today's House of Commons debate - concern is growing among industrialists that the rate is too high.

Worries have been brought into sharp focus by bad news on pay. The rise in average earnings to an annual 10.25 per cent in August, the likelihood of a tough pay round in the motor industry and the news that British Rail has offered a 25 per cent rise in basic pay to signalling engineers on Network South East have raised fears as to whether Britain can stay competitive in a fixed-rate system.

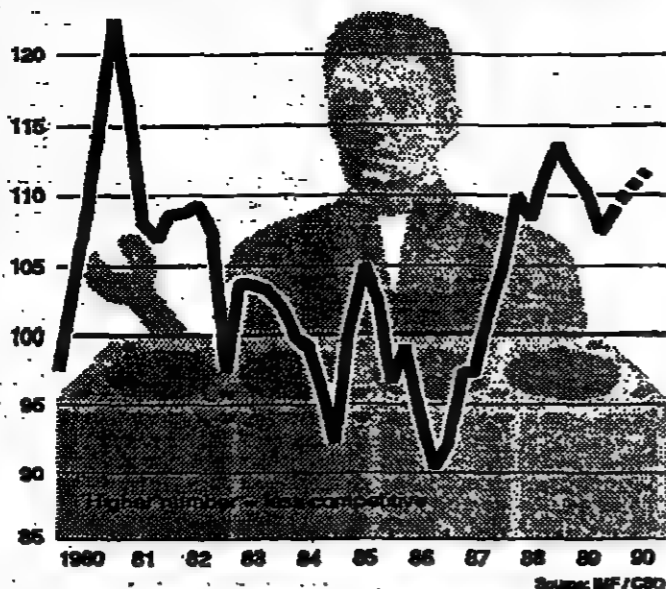
Industrialists are already submitting to discomfort with the arrangements - in contrast with the Confederation of British Industry which has welcomed ERM entry. However, the confederation is concerned that there are "clouds on the horizon" despite yesterday's trade figures which showed exports holding up well last month compared with August.

According to Mr Richard Freeman, chief economist of Imperial Chemical Industries, the DM2.95 rate "will have an impact on every company engaged in exporting from Britain". Mr Freeman says that industry feels the rate is too high and will have to adjust. "Unless there is a remarkable change in pay-bargaining behaviour, that will mean unemployment rising faster than it would have done."

Small businesses too are worried. Mr David Farnock,

## Peter Norman on concerns over sterling's DM2.95 rate of entry

Britain's international competitiveness  
Index of relative normalised unit labour costs, 1985-100



chairman and chief executive of Astell Scientific, says he is "uncomfortable" about the rate. Astell is based in Sidcup, Kent, employs about 120, and makes and sells some 250,000 worth of laboratory equipment a year. About a quarter of sales are exports. Mr Farnock fears that with the pound pegged to the D-Mark, his products will be undercut by US and German producers in middle and far east markets.

In the West Midlands economic survey companies are now paying a heavy price for having bid up wages to secure skilled workers in short supply. "The prime concern in the region was to get a stable rate and not think about the level," says one Birmingham-based economist. "Now industry is finding the level high. It would have been happier with DM2.65 to DM2.75."

Concern was also apparent on the bank benches of parliament last week. Mr Ron Leighton, Labour MP for Newham north-east, castigated the government's policy as "fancy, stupid and misguided".

However, securing a high exchange rate for the pound that would keep import prices low and limit industry's capacity to grant big wage increases was one of Mr Major's objectives. He told the House of

Commons last week that a firm exchange rate was "a vital part" of government policy to maintain tight monetary conditions to reduce inflation. He was "confident that a central rate of DM2.95 is sustainable". According to the chancellor, Mr Nigel Martin, Philip's & Drew's chief economist, thinks DM2.50 to DM2.70 would have been a more appropriate rate.

The gap is explained primarily by different perceptions of what the exchange rate should achieve. Mr Davies feels a lower rate would have no effect in curbing inflation. Mr Martin believes the government's chosen entry rate may produce a "lead balloon" economic scenario in which it must raise interest rates at some point when it should be cutting them to maintain parity.

Whether DM2.95 turns out to be a prudent rate or act of folly depends on developments, particularly in wage negotiations. Since the pound entered the ERM, both Mr Major and Mr Robin Leigh-Pemberton, the governor of the Bank of England, have stressed that wage increases must fall if the ERM experiment is not to end in tears. Without wage moderation, the DM2.95 rate could become a huge gamble for the government and especially for Mr Major, in what is now a pre-election period.

Toyota of Japan suggests that powerful foreign manufacturers are not put off by the government's strong exchange rate policy and instead see the advantages of a UK base in the post-1992 European single market. In a recent study, Salomon Brothers, the US investment house, forecast a manufacturing boom for Britain in the 1990s, describing the UK as a possible "Hong Kong of Europe".

In his defence of the ERM entry rate, Mr Major argued that DM2.95 was sterling's "average inflation-adjusted real rate of the past decade". He cited three independent analysts' assessments of the pound's purchasing power parity which suggested that the pound was competitive with the D-Mark at DM2.30, DM2.19 and DM2.55. He also said international Monetary Fund figures indicated that industry will be competitive at DM2.95.

It is in the complex (thick) purchasing power parity calculations that Mr Major is on weaker ground - they are at best an unreliable guide to competitiveness.

Goldman Sachs and UBS Phillips & Drew, two London investment houses, each calculate sterling's purchasing power parity rate against the D-Mark at about DM2.30. But Mr Gavyn Davies, Goldman's chief economist in London, believes that the ERM entry rate of DM2.95 is about right. Mr Bill Martin, Philip's & Drew's chief economist, thinks DM2.50 to DM2.70 would have been a more appropriate rate.

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Beware of visiting small countries: you can easily get an exaggerated sense of your own importance.

I went last week to the Basque Country: a country of 500 people, the majority of whom vote regularly for different varieties of Basque nationalism, and will do so again, if opinion polls are anything to go by, when they re-elect their autonomous Basque parliament next Sunday; a country, moreover, which was only invented about 100 years ago, when Sabino Arana, the founder of Basque nationalism, coined the name "Euzkadi" to give a common identity to the regions, until then separate, where the Basque language was spoken.

I was invited by the Fundación Sabino Arana, a think-tank closely associated with the Basque Nationalist Party (PNV), which is the dominant party in the Basque government and confidently expects to increase its vote, thanks to the decline of a splinter party led by the former prime minister, Mr Carlos Garañano (a kind of Basque David Owen). Mr Joseba Aguirre, son of the president of the short-lived Basque Republic of 1936 and now director of the chamber of commerce in Bilbao, kindly invited me to lecture there on "European security in the 1990s".

I knew I would be treated very hospitably, but I had not been prepared for quite the VIP treatment I got, culminating in a full-page report of my lecture in one of the local newspapers under the headline "Edward Mortimer y el futuro de Europa". (Although the Basque language, famous for its lack of resemblance to any other known language anywhere in the world, is of great emotional importance to Basque nationalists, they usually admit that it is in current use only by a minority, whereas knowledge of Spanish is universal.)

The key to the enigma was a map, purportedly representing "Europe in 2020", which had little or nothing to do with my lecture but was reproduced prominently below the newspaper report. This map first appeared in the FT on January 24, to illustrate an article in a special survey we published on "East Europe in Ferment". In the FT it was firmly labelled a "fantasy", and the article stressed that it was simply an "exercise of the imagination". I carefully disclaimed any pretension to second sight. Egged on by colleagues at a moment when we were all filled with euphoria at the sudden liberation of eastern Europe, I was having fun.

## FOREIGN AFFAIRS

# New era for nations in embryo

Edward Mortimer hopes that it will soon be easier to redraw borders than to move people

If there was a serious point to the article, it was that in a world of instant global communication frontiers should not matter as much as they once did, and certainly they are not worth fighting for.

As it happened, I left London for Euzkadi just after completing it, and there contracted a nasty bout of flu, with the result that I never even saw the proof of the map before it was published. Had I done so, I like to think I should at least have corrected the inadvertent transposition of Flanders and Wallonia (an exchange I do not anticipate even in my wildest

join with Turkey, "minus Kurdistan". Some Turks like the idea of the link-up. Others dislike the implied separation from western Europe. Almost all strongly dislike the idea that south-eastern Turkey might secede, or even might become generally known as Kurdistan.

It was certainly provocative of me to put that in, but my starting hypothesis, a deliberately optimistic one, was that by 2020 it will no longer be possible to keep people inside a state if the majority of them would rather be outside it. Minorities who are seriously unhappy will leave, but where a majority in a sizeable region

In a world of instant global communication frontiers should not matter as much as they once did, and certainly they are not worth fighting for

fantasies). I probably should also have included Macedonia and Bosnia-Herzegovina in Serbia rather than making them separate members of my imaginary "Balkan Union". I'm afraid I might not have noticed, however, that the frontier of Euzkadi had been so drawn that it clearly included the province of Navarre.

I should have been more careful. The FT after all prides itself on being a European newspaper. My "fantasy" attracted attention in parts of Europe where national frontiers are taken very seriously, and where its light-hearted nature was not automatically understood. I discovered not long afterwards that the article, and more especially the map, had caused great excitement in Turkey - because I had suggested a "Turkic Union" in which the Turkish-speaking peoples of the Soviet Union and northern Iran might

is unhappy, especially if that region is on the edge of an existing state and next to a region in another state where people speak the same language or believe they have the same national identity, then it will be more convenient to move the frontier than to move the people.

Those conditions might well be fulfilled in south-eastern Turkey, unless the Turkish state becomes much more successful than it has been lately in making Kurdish people feel it belongs to them as much as to ethnic Turks.

But it was only last week that I realised that this wretched map had made me famous in the Basque Country as well. To be fair, I don't think this was mainly because of the mistake about Navarre, although that was certainly unfortunate. Navarre is the

Northern Ireland of the Basques: that is to say, it is regarded as one of the Basque "historic territories", but the majority of people now living there do not consider themselves Basques and have opted not to join the autonomous "Euzkadi" as the Statute of Basque Autonomy entitles them to do. The present Basque government, like the government of the Irish Republic, accepts that this decision can only be changed by free choice of the people concerned; but the terrorists of ETA, like the IRA, do not.

I had no intention of intervening in this argument at all, and still less of lending my support to any programme of terrorism or coercion. The same map showed Northern Ireland as still separate from the Republic, because I do not expect the Northern Irish to change their minds and my hypothesis ruled out the idea that they might be forced to do so. I don't know enough about Navarrese politics to be equally certain that there could be no voluntary change of heart in that case, but I certainly would not wish to pre-empt it.

What I did and do think was that if the process of European integration continues a time will come when it is no longer necessary for regions with a strong sense of national identity, such as Euzkadi in its present frontiers certainly is, to have their membership of the European Community (or its successor organisation, which my fantasy had called "United States of Western Europe") mediated through one of the existing member states.

"Scotland in Europe" is to my mind a perfectly reasonable slogan, and one that should recommend itself to English Conservatives who think there are at present too many tiers of government - quite apart from the tactical point that a UK without Scotland, whether or not it still included Wales and Northern Ireland or was reduced to England, would presumably have a more securely built-in Conservative majority than the present UK does.

On that point I agree with the Basque Nationalists, which explains the specially friendly welcome they gave me - though I am sure they are very friendly even to those who disagree with them. But I am not sure they should attach such importance to my opinion; and I am waiting nervously for the news that a street has been named after me by mistake in Sarajevo, or that I have been burnt in effigy simultaneously in Antwerp and Liège.

## LETTERS

### ERM: the wise and painful entry level

From Mr Giles Keating.

Sir, Simon Wren-Lewis's analysis of Britain's entry to the exchange rate mechanism ("The danger of a high entry level" October 19) assumed that UK interest rates would fall to within 5 per cent of the German level when sterling joined, due to increased confidence in the currency.

Had this happened, then the rest of Professor Wren-Lewis's analysis would follow: does the demand for the pound worsen the trade deficit and inflation, and these outcomes would have required a low entry level.

As it is, UK interest rates after ERM entry are still more than 5 per cent above German levels and sterling is weak. This weakens the case for narrowing the gap will take some time. Mr Major chose a high entry level and the market is questioning about its sustainability. So interest rates will not fall rapidly and inflation will not fall. Instead of accelerating as it does in Professor Wren-Lewis's low-entry scenario, Mr Major's choice of entry level is the wise one, although it means pain in the UK traded goods industries, initially a profits squeeze and then lower wage rates.

Giles Keating, director (economics), Credit Suisse First Boston, 20 Great Titchfield Street, W1

From Mr Peter Robson.

Sir, Simon Wren-Lewis wonders why the government and the foreign exchange market did not accept the argument for a lower ERM entry rate for sterling. He posits four possible reasons.

I would not presume to speak for the government, but I would suggest that the market was not concerned with any of them. Its only concern was to take advantage of

investment in a currency with a high enough short-term yield to more than offset the extremely unlikely possibility of an early downward realignment. Even this enthusiasm has cooled rapidly, inside a phantasmagoria 5 per cent band.

The scale of this initial reaction and possibly of the market's eventual major sell-off (if that is not too cruel a pun) has been, and could be, that much greater simply because sterling - unlike the other non-D-Mark currencies in the ERM - is one of the main international investment currencies. It is this role which inevitably complicates sterling's adherence to a fixed-but-adjustable system in a floating exchange rate world.

Peter Robson, Hapfeldt, Norfolk

From Mr J.P. Warren.

Sir, Douglas Jay ("Fixed exchange rates and the lessons of history" October 16) gives the impression that Britain's prosperity since the First World War has depended on the successive devaluations of sterling to which he refers. I submit that all history proves otherwise, in that while devaluations can provide a short-term palliative for a nation's economy, their longer-term effect is always to increase the lack of competitiveness which makes them politically expedient.

Mr Jay is not alone in blaming Churchill for the deflationary hardships caused by the 1925 revaluation of sterling. There are, however, some, including myself, who believe that, painful as its effects were, it served to protect Britain from the full impact of the 1929-1933 world slump, as suffered in the US.

J.P. Warren, Cherrymead, Ayr

### The Turks in northern Cyprus

From Mr Alper Fakir Genc.

Sir, Edward Mortimer ("More than one kind of linkage" October 16) shows an uncritical acceptance of Greek Cypriot allegations that northern Cyprus is "unlawfully occupied by Turkish forces".

The Greek Cypriots are, however, in no position to complain of breaches of law, for the ink was hardly dry on the 1960 independence constitution when they began to violate it. Having got the Turkish Cypriots out of all positions in parliament and government, they would not let us back unless we accepted constitutional changes made unilaterally.

In 1963 they ignored the Supreme Constitutional Court of Cyprus when it ruled against them. When we refused to bow to the pressure they launched a violent attack on Turkish Cypriot families at Christmas 1963, and many hundreds of men, women and children were killed in cold blood. The Foreign Affairs Committee of the UK House of Commons reported (1967): "There is little doubt that much of the violence which the Turkish Cypriots claim led to the total or partial destruction of 103 of their villages and the displacement of about a quarter of the total Turkish Cypriot population, was either directly inspired by, or certainly connived at by, the Greek Cypriot leadership itself."

For the next 11 years Turkish Cypriots lived in enclaves in fear of their lives. The last straw for us, and for Turkey, came in 1974 when Greek Cypriots and Greek Cypriot paramilitaries seized power in order to annex the island to Greece and murder the remaining Turkish Cypriots. Five days later Turkey intervened to save us, and we now live in peace guaranteed by Turkey in the island's northern third.

The United Nations Security Council called for the withdrawal of Greek troops, but it has never called for the withdrawal of Turkish troops, which are present by virtue of the 1960 international treaty of guarantee. To argue that Turkey should have withdrawn and left us again at the mercy of the Greek Cypriots is legalistic nonsense. We have accepted - and Greek Cypriots have not - the 1966 UN plan for a settlement, which provided for the withdrawal of non-Cypriot troops.

Alper Fakir Genc, press councillor, Office of the London Representative, Turkish Republic of Northern Cyprus, 26 Cockspur Street, SW1

Israel and UN Resolution 242

From Mr S. Goldman.

Sir, Robert Graham ("UN resolutions on Israel" October 11) makes a rather important error when he refers to "Israel being asked to observe Resolution 242, calling for its withdrawal from the territory occupied in the 1967 Six Day War".

In fact Israel was the only country which accepted Resolution 242 but it was rejected by all the Arab states. They rejected it because the resolution goes on to say "shall withdraw to secure and recognised borders". Israel would still be happy to implement Resolution

242 and would be delighted to quit its defensive occupation of the West Bank and Gaza to retire to secure and recognised borders, providing its hostile neighbours agree to accept the main principle of 242.

It is impossible to equate that situation with the resolution demanding the withdrawal of Iraq from Kuwait because Iraq already has secure and recognised borders if it agrees to withdraw behind them.

S. Goldman, Goldman Investments, 81 St Margaret Road, Leeds

242 and would be delighted to quit its defensive occupation of the West Bank and Gaza to retire to secure and recognised borders, providing its hostile neighbours agree to accept the main principle of 242. It is impossible to equate that situation with the resolution demanding the withdrawal of Iraq from Kuwait because Iraq already has secure and recognised borders if it agrees to withdraw behind them.

S. Goldman, Goldman Investments, 81 St Margaret Road, Leeds

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### A challenge to economists: the interpretation of 'sustainable'

From Mr Bernard Little.

Sir, David Richardson ("Farmer's viewpoint" October 16) highlights how the word "sustainable" is being used by agriculturalists to justify the continuation of present agricultural methods. Quite possibly it will be the interpretation and use of that word which

will lead us to, or away from, a tolerable future for ourselves and following generations.

The interpretation of "sustainable" used by the Green party is quite straightforward. It is the recognition that all earth's resources are finite and that a sustainable system means taking no more from an

ecosystem than it can create and, at the same time, remain healthy, diverse and self-perpetuating.

In a practical sense it means returning all waste back to the soil, a system that if managed properly can carry on indefinitely. Current agricultural systems clearly do not meet

these criteria. The challenge for economists is to marry ecology and economics so that running a sustainable business is ecologically sustainable as well.

Bernard Little, Agriculture Policy Group, Green Party, 10 Station Road, SW22

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INSIDE

Union Carbide falls 35% in third quarter

The Gulf crisis has dealt a sharp blow to third-quarter income at Union Carbide. The chemicals group suffered a 35 per cent drop in net income as rising oil prices pushed up the cost of its raw materials. However, chairman Robert Kennedy (left) pointed out that the effect of rising oil prices had been mitigated by improved sales volumes and strong performance in some parts of the business. Page 24

Turkey's troubled private life

Since its birth in 1984, Turkey's privatisation programme has been beset by problems beyond the authorities' control. From the stock market crash to the Gulf crisis, some bankers believe the scheme could provide a serious digestion problem for Istanbul's still emerging stockmarket. But tomorrow the programme gets back on the rails, reports John Murray Brown. Page 24

Tapping the Orinoco

The unrest in the Gulf has triggered another hunt for alternative, and stable, sources of energy. Technical scrutiny has fallen again on finding productive uses for Venezuela's vast black oil-rich deposits in the Orinoco river basin. With half the world's recoverable oil reserves in this super-heavy category, the oil industry may be faced with a significant technological development. Page 22

Dogfights over Korea

The South Korean travel boom, unleashed by the removal of restrictions last year and the 1988 Olympics, has turned into a vicious dogfight between Korea Air and the fledgling Asiana Airlines. Poaching of pilots and bitter competition has intensified as the Korean government decides how to divide routes between the two carriers. Page 26

Riddle of al Rayan buyer

The latest stage in the long-running Egyptian financial scandal has seen approval for the takeover of the ailing al Rayan investment company whose owners were accused of defrauding investors of \$716m. But the identity of the new Egyptian owners has not been disclosed. Many of the 157,000 depositors who invested their life-savings in al Rayan during the 1980s are already complaining that they will be repaid at the exchange rates prevailing in 1988 — the year the company's activities were frozen. Page 28

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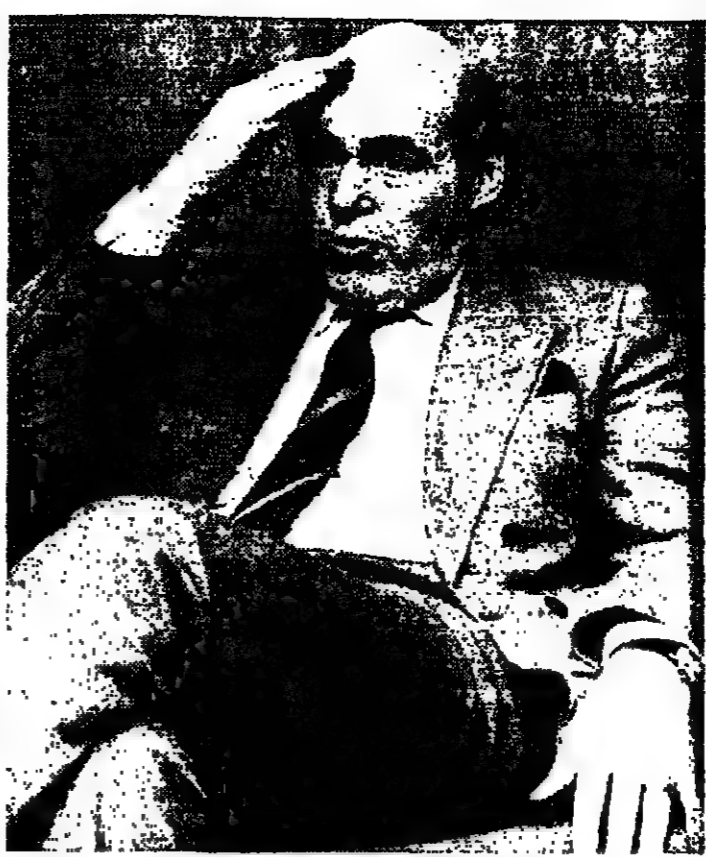
Chief price changes yesterday

FRANKFURT (DM)					
DAI	386	+ 10	Siemens	523	+ 13
MAN	411.5	+ 3.5	Stet	514.5	+ 4.1
RWE	382	+ 5	Telecom	191	- 4
Telecom	613.9	+ 4	Telecom	129	- 4.1
Deutsche AG	625.5	- 4	Telecom	389.8	- 10.2
Siemens	585.4	- 2.6	Telecom	382	- 5.5
Volkswagen	598	- 3.1	Telecom		
PARIS (FFr)					
Alcatel	21.4	+ 1.5	Peugeot	1250	+ 100
Comp. Ind.	23.2	+ 1.5	Renault	1750	+ 30
Elf	33.2	+ 1.5	Saatchi & Saatchi	520	+ 10
Michelin	31.4	+ 1.5	Saatchi & Saatchi	541	+ 51
Peugeot	33.4	+ 1.5	Telecom	552	- 8
Sanofi	34.4	+ 1.5	Telecom		
St. Louis	34.4	+ 1.5	Telecom		
PARIS (FFr)					
Alcatel	21.4	+ 1.5	Peugeot	1250	+ 100
Comp. Ind.	23.2	+ 1.5	Renault	1750	+ 30
Elf	33.2	+ 1.5	Saatchi & Saatchi	520	+ 10
Michelin	31.4	+ 1.5	Saatchi & Saatchi	541	+ 51
Peugeot	33.4	+ 1.5	Telecom	552	- 8
Sanofi	34.4	+ 1.5	Telecom		
St. Louis	34.4	+ 1.5	Telecom		

Philips and Du Pont end CD joint venture

By Ronald van de Krol in Amsterdam and Michael Skapinker in London

PHILIPS of the Netherlands and Du Pont of the US are to end their four-year-old joint venture for the manufacture of compact discs (CDs) and professional discs. Philips will acquire the consumer side of the business and Du Pont will dispose of the venture's professional disc operations. Philips intends to sell parts of the consumer disc operation — which includes CD manufacturing plants — to PolyGram, its London-based, 60 per cent-owned recorded music subsidiary. The ending of the joint venture follows a restructuring of Philips' semiconductor and computer divisions, which will result in the loss of 3,000 jobs, Philips said earlier this month that it would develop computer systems based on its expertise in professional disc technology. Philips denied that yesterday's move meant it was abandoning professional discs. It was, however, calling a halt to the in-house manufacture of the discs, which until now has been the joint venture's most heavily loss-making area. These products are used for data storage by professional users in the business, legal and medical fields. Analysts welcomed Philips' decision to end in-house manufacture. They said it was in line with plans announced by Mr Jan Timmer, the group's president, to concentrate on profitable areas and either pull out of loss-making businesses or buy in supplies from other manufacturers. Philips said the two partners had decided to disband the joint venture because growth on the professional side had not met expectations and because Du Pont had little interest in the consumer applications of disc technology. The joint venture with Du Pont employs 3,600 people in Europe and the US and posts annual sales of \$325m, of which the consumer side accounts for \$250m.



Michael Henderson: denied deal was at a knock-down price

Cookson to sell Tioxide stake to ICI

By Clive Cookson in London

COOKSON, the heavily indebted British industrial materials group, has agreed to sell for £160m (\$314m) its 50 per cent stake in Tioxide, the pigments manufacturer, to ICI, its partner in the joint venture. Last year, Tioxide made a pre-tax profit of £200m on sales of £700m. Therefore the price paid by ICI is only 2.4 times historic earnings. The first reaction of some analysts was to call the deal a distress sale at a knock-down price. But Mr Michael Henderson, chairman and chief executive of Cookson, rejected that description. He said Cookson had several reasons for selling the stake now, as part of its programme of cutting borrowings. "Tioxide faces a capital expenditure programme of several hundred million pounds over the next five years, to strengthen its environmental controls and introduce new technology. The decline in Tioxide's trading performance this year 'has been unexpectedly severe'. The longer term outlook for the titanium dioxide business in the 1990s has also deteriorated significantly. This would necessitate a major cost reduction programme at Tioxide together with a write-down of assets." The deal will increase ICI's exposure to cyclical bulk chemicals — contrary to the group's stated long-term policy of focusing increasingly on specialist products that are less affected by the business cycle. But ICI sources said that the opportunity to acquire sole control of Tioxide for only £160m represented an irresistible bargain. "There's a price at which ICI are prepared to invest in a cyclical business," said Mr John Reynolds of Schroders, the merchant bank advising ICI. "And there's a difference between buying in 50 per cent of a joint venture and buying an entirely new business." Mr Reynolds said the deal was "earnings neutral for ICI at this stage of the cycle". The benefits would accrue to the profit and loss account later on, he said. "It does look as though Cookson's hand was forced," said Mr David Ingles, chemicals analyst at James Capel. "ICI have got Tioxide very cheaply indeed. But Cookson will feel more comfortable after the disposal. I think they will seek further disposals there are some metals businesses which are not core holdings and this will give them the confidence to negotiate more toughly." Lex, Page 23

Polly Peck pins hopes on Nadir for last minute escape

By Clay Harris, Richard Waters and Stephen Fidler in London

POLLY PECK International now accepts that administrators could be appointed tomorrow unless Mr Asil Nadir, the chairman, engineers a last-minute escape. Mr David Fawcett, deputy chief executive, admitted yesterday that Mr Nadir needed to obtain £30m (\$58.5m) in cash from northern Cyprus on his current visit if Polly Peck were to hold off its creditors. Banks on the steering committee co-ordinating Polly Peck's creditors said yesterday that their patience with the company was exhausted. The company had outstanding borrowings of more than £1bn at the end of September. Polly Peck had also failed to produce the cash from Cyprus that it had promised when the creditors agreed on October 12 to extend a standstill on debt repayments until November 9. That had hardened attitudes among banks which had previously been content to allow it more breathing space. One member of the steering committee described Polly Peck's position as "as bad as you can possibly imagine. If something substantial doesn't happen by Wednesday, then that's pretty much the end of it."

Mr Fawcett, however, was not ready to despair: "It depends on how much money comes in," he said. "If the banks see money coming in, their position is going to change." Asked how much money was needed to stave off administration this week, Mr Fawcett said: "The figure is not specified, but it's somewhere around \$50m to \$60m (£25.5m to £30.7m)."

At a meeting yesterday morning, the steering committee of nine banks and Legal & General, the insurance company, agreed to delay any action until later in the week. Administration, an insolvency procedure involving the appointment of independent administrators to run the group, would give Polly Peck protection from its creditors long enough to allow for a reorganisation of the company or an orderly disposal of its businesses and assets. Polly Peck owns the US-based Del Monte fresh pineapple and bananas business, other fruit-trading operations, consumer electronics companies in the Far East and Turkey and hotels in northern Cyprus and Turkey. Hawks gather, Page 30

Companies lose way in commercial paper chase

THE ANNOUNCEMENT by SG Warburg, one of the largest dealers in commercial paper, that it is pulling out of the London CP market is another sign of the stagnation that has hit one of the more esoteric of London's financial markets. It underlines a narrowing in the financing options facing companies which have become accustomed to seeking short-term liquidity through issuing these corporate IOUs. The beneficiaries of this change will be the commercial banks. They are already finding that some of their less-highly rated customers can no longer issue commercial paper and are retreating to them for more short-term funding, rather than to the anonymous CP market. This may be no bad thing. In several recent cases, including the financial crisis at Polly Peck, the stricken UK fruit trading concern, dependence on commercial paper has increased a company's financial vulnerability.

In the commercial paper market, short-term corporate IOUs are sold to investors through a group of securities firms and banks. The rapid growth of such markets in Europe during the 1980s followed the discovery that companies could often borrow more cheaply from the securities and paper markets than they could from their traditional bank lenders. Both in the unregulated Euro-commercial paper market — where US dollar paper trades outside the control of the US authorities — and in the sterling commercial paper market, opened by the Bank of England to a limited group of borrowers in 1986, there was less emphasis on the credit quality of the borrowers than in the US.

The US emphasis on credit quality stemmed from its experience of default in the commercial paper market. As a result, only issuers carrying a rating from a recognised agency can use the US market; and only then if there is a standby bank credit in case, for whatever reason, investors decide to shun the paper. In contrast with the US, much of the commercial paper sold in Europe, particularly for lower-quality issuers, was being placed with banks. The CP market contributed to a general loosening of relationships between companies and their bank lenders.

Since commercial paper investors are usually unsecured and often have local origins, their stake, their interest in keeping a company afloat may be weaker than for larger bank creditors. The Polly Peck bank lending standstill has brought up other issues. Because the paper is usually issued at a discount and redeemed at face value, commercial paper holders are at a potential disadvantage to other creditors, who can lay claim to interest payments which stack up daily. The announcement yesterday from the Midlands-based company came against the background of annual figures flat-topped out not only by the problems of the motor market but by currency movements and the uncertainties springing from the Gulf crisis. Pre-tax profits for the year to last July were just 2 per cent higher than a year before at £181.2m on a turnover up seven per cent at £2.33bn. The figures were within the broad range of market predictions but shivers of concern about the prospects for the current year were enough to

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## INTERNATIONAL COMPANIES AND FINANCE

# Union Carbide falls 35% as Gulf crisis raises costs

By Martin Dickson in New York

UNION CARBIDE, the chemicals group, suffered a 35 per cent drop in third-quarter net income as increasing oil prices in the wake of the Gulf crisis raised the costs of its raw materials.

The company reported net income of \$81m compared with \$139m in the period last year, on net sales of \$2.2bn, up from \$2.14bn. Earnings per share were 63 cents, down from 98 cents.

Mr Robert Kennedy, chairman, said the effect of rapidly increasing oil prices had been mitigated by improved sales volumes in chemicals and plastics, raw material flexibility and a continued strong performance by the industrial gases business.

But he warned that "additional feedstock cost increases, coupled with general economic weakness, will result in further pressures on margins and the

need for continuing controls on capital spending and costs".

The figures included the cost of a loss of power in August at one of the company's US plants, which is estimated to have clipped 4 cents from earnings per share.

There was a 9 cents-a-share gain from the sale of a polysilicon business, partially offset by non-recurring charges totaling 7 cents a share from cost reduction programmes. Third-quarter 1989 earnings included a non-recurring gain of 5 cents a share.

Operating profits in the chemicals and plastics businesses, which suffered reduced selling prices as well as higher raw materials costs, dropped from \$235m to \$189m on sales little changed at \$1.34bn. Industrial gases saw profits increase to \$118m from \$70m on sales up to \$692m from \$553m.

## Sasib moves to third in world rail signal league

By Haig Simonian in Milan

SASIB, the fast-growing industrial group controlled by Mr Carlo De Benedetti, has bought General Railway Signal (GRS), the railway and underground transport signalling subsidiary of General Signal of the US.

The deal means that Sasib, which is also active in the food packaging sector, will more than double its sales in the railway signalling business, becoming the world's third-biggest supplier.

The acquisition will boost the strong position of Italian companies in the sector, following last year's purchase by Ansaldo of Union Switch and Signal.

GRS, based in Rochester, New York, has almost 30 per cent of its domestic market and about 40 per cent of that for mass-transit systems. It is also strongly represented abroad through subsidiaries in Holland, China and the Far East.

Sales this year are expected to exceed \$80m. Recently, the company won a \$50m deal to supply signalling equipment for a new underground railway system in Taiwan.

The deal will further push Sasib's group sales, which are set to reach at least \$500m this year.

No price has been disclosed for the deal, on which Sasib was advised by Wasserstein Perella.

## Insurer on course to meet forecast

UNION des Assurances de Paris (UAP), the French state-controlled insurer, yesterday reported a 35.1 per cent rise in first-half attributable net profit to FF3.34bn (\$540m).

Reuter reports. UAP said the forecast it gave in spring of a 25 per cent increase in 1989 profits from FF2.42bn in 1988 remained valid.

Consolidated turnover - which covers only UAP's insurance and reinsurance business - was FF49.4bn, a rise of 57.5 per cent from the first half of 1989.

# Turkish privatisation train rolls once more

Problems have stalled the sell-off plan which began in 1984, writes John Murray Brown

Turkey's stalled privatisation programme gets back on the rails tomorrow with the sale of the first of three small cement companies, which together are expected to raise about TL150bn (\$54m).

Mr Okkes Ozuygur, chairman of the government-run Public Participation Fund which co-ordinates the privatisation programme, says the offer will test market confidence prior to the proposed sell-off of Turk Hava Yollari, the state airline, this year and a global offering of Petkim, the petrochemicals complex, planned for 1991.

Shares in Konya Cement Factory go on sale today, followed by the Unye and Mardin cement companies in early November. The state's majority stake in the companies will be sold under a public offering, handled by more than 500 bank branches throughout Turkey.

The authorities are adopting a cautious approach. A court case is still pending over the

controversial block sale last year of five cement companies to Ciments Français, the French group.

In April, Turkey's administrative court upheld a suit from opposition members of parliament ruling that the sale contravened the terms of a 1987 decree on privatisation which gives priority to domestic buyers. The French company is appealing. Mr Ozuygur insists it is a technical problem which will not frighten off foreign investors.

Since its beginning in 1984, Turkey's privatisation has been beset by problems beyond the authorities' control, from the world stock market crash in 1987 to the Gulf crisis. Some bankers believe the scheme is too ambitious, and if implemented could provide a serious digestion problem for Istanbul's emerging stock market.

Turkey's 55 state enterprises dominate the economy, accounting for about 30 per cent of industrial output in



Okkes Ozuygur: sales have met legal snags and scepticism

Turkey and 60 per cent of public investment. They cover everything from public utilities to trading and banking.

The companies are notoriously inefficient and overstaffed. According to the latest Treasury figures, the state enterprises recorded losses of

TL53.2bn in the first six months of 1990.

The impact of privatisation on the Budget so far has been marginal. Mr Ozuygur says the programme has raised TL100bn since the start of 1989. The proceeds are channelled by the PPF into infrastructure work such as housing. But the funds are not included in the Budget, and economists argue they merely fuel the budget deficit.

The programme has not been universally popular with the public either. This month the PPF had the galling experience of having to buy back some of the 8 per cent of Petkim stock it sold through a public offering last June.

Officials confirmed that the fund bought TL100bn worth of shares just to maintain the original offer price, after bondholders with share options dumped stock on the market.

Also this month, the stock exchange briefly suspended trading in Cukurova Elektrik,

another recent flotation. Heavy buying started after rumours that the company was about to revalue its dams and other assets, a common practice for Turkish companies trying to keep abreast of inflation. On this occasion, however, the Ministry of Finance intervened, saying the dams supplying the company were government property.

The PPF's next task is to sell the giant Sumerbank corporation, which makes and sells textiles, ceramics and shoes. Following a report by the stockbroker firm Barclays De Zoete Wedd, the PPF is expected to privatise the group's retail outlets and sell some of its property.

The main challenge will be finding a home for the holding company, which with 37,000 employees would dwarf any private Turkish group. As with Petkim and the large cement companies, the PPF will probably end up looking for a foreign buyer.

## BCP confident of winning CISF as deadline passes

By Peter Wise in Portugal

BANCO Comercial Portugues (BCP), Portugal's leading private bank, said it would not raise its offer for a controlling stake of CISF, the country's second-biggest merchant bank, as the deadline for changing the bid ran out yesterday.

The move signalled that BCP was confident its offer would be accepted by shareholders representing at least 43.5 per cent of CISF's capital, the minimum required for the bid to go ahead.

If sufficient sale orders are placed by November 5, the public bid session will be held on the Oporto Stock Exchange on November 8.

BCP, Portugal's largest quoted company, also announced yesterday a 103 per cent increase in pre-tax profits to \$513.2bn (\$83m) for the first nine months of 1990. Cashflow increased 93 per cent to \$517.1bn. Earnings per share increased 38 per cent to \$519.4.

Mr Jorge Jardim Goncalves, chairman, said the bank planned to extend its branch network from just more than 100 branches to about 170 by December.

Observers see BCP's bid for CISF, which has played a prominent role in Portugal's privatisation programme, as an attempt to find a short cut into the corporate financing and privatisation markets, given that attempts to foster merchant banking within BCP's corporate structure have proved unsuccessful.

Some CISF shareholders have expressed dissatisfaction with BCP's offer price of \$2.350 a share - a premium of 20 per cent on the last quotation of CISF stock on September 14. Shares were withdrawn from trading following BCP's bid.

However, analysts calculate that many of CISF's shareholders will accept as an opportunity to realise capital gains.

## Milan bank buys 5% of Continental

By Haig Simonian in Milan

ANOTHER 5 per cent stake in Continental, the German tyres group currently subject to a takeover proposal by Pirelli, the Italian tyres and cables group, is now in hands sympathetic to Pirelli.

Sopaf, a small Milan merchant bank controlled by Mr Jody Vender, said yesterday it had bought 5 per cent of Continental's stock for L99.4bn (\$84.9m) during this month. Earlier in October, Mediobanca, the powerful Milan merchant bank which has regularly advised Pirelli, said it had spent L104bn to buy a similar stake.

Pirelli has said its merger is supported by a majority of Continental's shareholders, although it has yet to provide details.

Nevertheless, with its own 5 per cent and the 1 per cent in Continental held by Merrill Lynch, which is also advising Pirelli on the deal, 16 per cent of Continental's stock is now known to be in hands sympathetic to Pirelli's plans.

## Inco earnings fall by a quarter

By Bernard Simon in Toronto

LOWER nickel prices, a fall in shipments and greater production costs pushed earnings of Inco, the world's leading producer of the metal, down by almost a quarter in the three months to September 30.

Net earnings of the Toronto-based company slid to US\$97m or 92 cents a share, from \$128.3m or \$1.23 a share a year earlier. Operating earnings fell more sharply to \$199m from \$274m. Sales were down to \$763.5m from \$942.7m.

The average price realised for primary nickel fell to \$4.46 a lb, down from \$5.28. The average price for the first nine months of the year was \$4.03 a lb, down from \$5.96. Nickel deliveries fell to 116m lbs in the third quarter, from 120m lbs a year earlier. Nine-month deliveries were down to 364m lbs from 380m lbs.

Inco also produces gold, silver and platinum-group metals. Increased precious metal prices partially offset the set-

back in nickel earnings.

There was a sharp fall, to \$5m from \$15m, in operating earnings from alloys and engineered products, ascribed to reduced deliveries and lower prices. Earnings in 1989 were boosted by a gain of \$5.8m from property sales.

Nine-month earnings dropped to \$366.6m from \$601.3m, including a second-quarter gain of \$112m from the sale of a 20 per cent interest in Inco's Indonesian subsidiary.

## Nordstjernan slips despite higher sales

By John Burton in Stockholm

NORDSTJERNAN, the Swedish property and construction group, yesterday reported a 45 per cent fall in profits after financial items to SKr432m (\$74.8m) for the first eight months of 1990, while sales rose by 2 per cent to SKr1.58m.

Nordstjernan blamed the lower profits almost entirely on poor results from its subsidiaries, such as the stainless steel manufacturer Avesta, the

department store NK and the industrial concern Kamyr, that are outside the parent group. It predicted that profits for 1990 will be lower than last year's figure of SKr1.1bn.

Extraordinary income amounted to SKr228m due to the sale of its subsidiaries, Dalabolin and Hudemora Separation, and the merger of the Johnson passenger line with Finnish ferry group Eftica. The new Eftica company yesterday reported a 43 per cent decrease in profits after financial items to SKr196m for the eight-month period.

Nordstjernan is restructuring, increasing activity in the construction and property sector while divesting in non-property areas. Its construction division NCC had a profit rise of 10 per cent to SKr504, while earnings from its property holdings increased by 31 per cent to SKr71m.

## Esab ahead by 14% to SKr273m

By Robert Taylor in Stockholm

ESAB, the world's leading welding equipment maker, yesterday announced a 14 per cent improvement in profits after financial items for the first nine months of the year to SKr273m (\$47m) from SKr238m in the same period of 1989.

Orders rose by 42 per cent to SKr5.29bn while invoiced sales increased by 50 per cent to SKr5.24bn.

The company said it expected results for 1990 to be lower than last year when they rose by 45 per cent.

It pointed out that the 1989 performance was lifted in part by particularly good results from Brazil during the fourth quarter.

Esab also pointed out that the outlook for welding and grinding equipment in Europe was mixed with strong demand in central and southern Europe with a weaker performance in Britain, Finland and Sweden.

It added that the US market had been stable.

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## INTERNATIONAL COMPANIES AND FINANCE

## Reebok falls 18% in third period

By Karen Zagor in New York

REEBOK International, the sports shoe maker in which Pentland Industries of the UK holds a 81 per cent stake, yesterday reported an 18 per cent decline in third-quarter net income to \$41m, or 36 cents a share, from \$49.9m, or 44 cents a share, a year earlier. Sales were \$588.9m, against \$524.5m a year ago.

Mr Paul Fireman, chairman and chief executive, said the results "were slightly better than previously estimated due to higher shipments than anticipated at several divisions, but especially at Reebok's International division. The decline in US sales of Reebok brand footwear was also somewhat less than expected."

In September, Reebok said it expected third-quarter per-share earnings to fall to between 33 and 35 cents, reflecting lower US sales and higher advertising and promotional expenses.

Shares in the company, which were unchanged at \$104 at midday yesterday, have fallen sharply since June, when they were changing hands at about \$118.

At that time, Pentland said it would sell its stake in Reebok. However, when Reebok's stock fell to about \$134, Pentland decided not to market the block until Reebok's share price improved.

For the first nine months ended September 30, Reebok's net income slipped 2 per cent to \$137.1m or \$1.20 a share on sales of \$1.57bn from \$140m or \$1.22 on sales of \$1.44bn last year.

## Flat quarter for Marsh &amp; McLennan

MARSH & McLennan, the world's largest insurance broker, yesterday reported third-quarter net income of \$74.6m, virtually unchanged from the \$73.5m made in the same period of 1989, writes Martin Dickson in New York.

But the company, which has been suffering from a pricing downturn in the property-casualty industry, said that while premium rates ranged from flat to downward, price stability was approaching.

Revenues in the quarter rose from \$607m to \$620m, with insurance income up \$40m to \$448.1m to \$79m, while the group's increasingly important consulting arm rose from \$122m to \$231m.

## Time Warner held back by expenses of merger

By Alan Friedman in New York

TIME WARNER, the debt-laden media and entertainment conglomerate that controls Time Magazine and Warner Brothers in Hollywood, yesterday unveiled a \$31m third-quarter loss, against a pro forma loss of \$124m last time.

This brings the total losses for the first nine months of 1990 to \$193m on nine-month revenues of \$8.2bn.

The loss per share in the latest third quarter was \$4.05. The company continues to have underlying profitability from its film, recorded music, cable television, publishing and other interests, but is saddled with a \$10.8bn debt burden that keeps the company in loss at the bottom line.

The debt relates to last year's merger of Time and Warner and continues to be a drag on the company, which

has been charging off related interest expenses and amortisation costs each quarter.

Mr Steve Ross, chairman of Time Warner, has tried to put a brave face on the debt problem, but the company's share price yesterday was just 70¢, which while up by 1¼ is still a far cry from the 1990 trading range of \$123 to \$213 made by Time Warner's investment bankers at the time of the merger.

The company is exploring ways of raising cash by forming joint ventures in the cable or film production business with European and Japanese partners.

Profits before interest, taxes, depreciation and amortisation amounted to \$548m in the third quarter. Total third-quarter revenues were \$2.9bn, against \$2.66bn on a pro forma basis.

Operating income from the magazine division was \$38m, down from \$41m on a pro forma basis for last year; the company said advertising and circulation was higher this year and attributed its lower profit to substantial start-up costs at Entertainment Weekly, a new downtown market entertainment magazine.

The filmed entertainment business provided a record \$140m profit, up by 36 per cent year-on-year and helped by domestic revenues from films such as Presumed Innocent.

The recorded music division turned in \$109m of operating profits, against \$108m last year. Cable television produced \$186m of profits, up by 20 per cent, while the HBO programme division had slightly higher earnings of \$45m against \$42m.

## Bidders for ENTel seek improved sale terms

By John Barham in Buenos Aires

NEGOTIATIONS over the privatisation of ENTel, Argentina's national telephone company, are deteriorating into a tense confrontation.

Government officials have reacted angrily to pressure from the two groups buying ENTel to improve terms of sale. President Carlos Menem has vowed to transfer ENTel to its new buyers by November.

However, sources close to the negotiations say the brinkmanship could wreck the privatisation. An Argentine businessman said: "The bidders know that the government is politically committed to privatising ENTel, so they are pushing for the best terms possible."

Officials have reacted by threatening to abort the privatisation or recall a consortium led by Manufacturers Hanover that had backed out this month. However, Bell Atlantic, a member of the Manufacturers Hanover consortium, said yesterday it would not return to the negotiating table.

The government has agreed to sell the company to two groups for \$214m in cash and \$55m-worth of Argentine foreign debt certificates, making it one of the developing world's largest privatisation efforts yet.

However, it has also become one of the most troubled sales, following the retreat of Manufacturers Hanover, the election of Argentina's chief negotiator, Ms Maria Julia Alsogaray and seemingly interminable negotiations.

The two groups - one comprising a Spanish state telephone company and the other the French and Italian state telephone companies - are demanding higher telephone charges than the government is willing to concede.

## Placer Dome puts a shine on its activities

Barbara Durr reports on the gold group's progress

Several months ago, Mr Earl Dunlop, chief of investor relations for Placer Dome, the Canadian gold mining group, went to a leading New York brokerage house to ask if it would begin to follow the company. "They didn't want to talk to me then," he says with a wry smile. "Now, they call me."

Placer Dome, the world's fourth largest gold mining company outside South Africa, has been attracting attention through a string of impressive acquisitions at home and abroad that have brought it rich, low-cost deposits. And, the sale of oil and gas assets has given it greater mining focus.

"They're doing all the right things," says Mr Warren Myers, a Merrill Lynch gold analyst.

Although the price of gold has had less of a boost from the Gulf crisis than many expected, and considerable uncertainty persists about where the price will go, Placer Dome is concentrating on keeping its reserves up and its costs low.

The company, based in Vancouver, has developed five new gold mines in four countries since 1989 and acquired a slice of Eskay Creek in British Columbia, considered one of the hottest gold properties in Canada.

The company was also due to close its deal yesterday for all the shares of Continental Gold, whose principal asset is a 70 per cent interest in the Mount Milligan gold-copper property, also in British Columbia.

New mine development will cost about C\$1.1bn (US\$414m) by 1992, but these projects will reverse the decline in company reserves.

Placer Dome will produce an estimated 1.4m ounces of gold in 1990, up from 1.2m last year, at a cash cost of about US\$230 per ounce. Production should increase to 1.8m ounces by 1992, a good way toward the company's goal of turning out 2m ounces per year.

Company production esti-

mates are expected to be largely unaffected by protracted labour problems at its Dome mine in Ontario, which last year produced 12 per cent of its gold.

This month the company said it made its last offer to workers, on strike since May 7, and if this were not accepted by November 16, the mine would be closed.

If the offer is accepted, the mine will be upgraded at a cost of C\$12m and restructured, with a reduction of 400 jobs.

The mine, which last year had a high cash operating cost of US\$342 per ounce, has been producing during the strike at a reduced level. The Ontario troubles have been dwarfed not only by Eskay Creek and Mount Milligan but by two of Placer Dome's recent foreign acquisitions.

The Porgera mine in Papua New Guinea, which has just gone into production, is expected to be one of the top six non-South African gold producers in the world with 900,000 ounces annually.

Placer Dome has a 23 per cent net interest and is the manager. The cash cost of production at Porgera is calculated at just \$106 per ounce for the first five years, and \$150 per ounce over the 15-year life of the mine.

It is also about to move into the second stage of production at La Colpa in Chile, where it is a 50 per cent partner. La Colpa is due to produce 200,000 ounces of gold and 16m ounces of silver annually for the first two years. Over its 12-year life, the mine is expected to yield 2.2m ounces of gold and 114m ounces of silver.

La Colpa's bulky addition of silver to Placer Dome's take from its Mexico mine Real de Angeles is helping to make it one of the world's largest silver producers. The company expects to produce 18m ounces of silver per year by 1992.

Placer Dome, with 22 operations in seven countries, has established a reputation for being prepared to go where

the deposits are good and the risks are considered manageable.

To offset the dangers of such a far-flung empire, it has obtained political risk insurance to cover half of its \$700m exposure in Papua New Guinea and Chile. Should the worst occur, the balance at risk would be only 10 per cent of the company's gross assets.

Gold analysts are impressed with the company's global strategy. It has money in the bank, a sizeable exploration budget and one of the best development teams in the world, according to Mr Egidio Bianchini of Nesbitt Thomson Deacon in Toronto. Mr Anthony Petrina, Placer Dome's president and chief executive officer, also wins high marks as a top flight miner and manager.

Mr Bianchini believes Placer has been especially shrewd in choosing to build up its North American operations because these "shift risks to balance those in Papua New Guinea".

The company is looking sleeker, too, after the recent sales of its gas and oil properties in the US and Canada. The US energy operations were sold for a net gain of US\$220m and the Canadian energy holdings for one of C\$288.5m.

There are, however, a few blots in the Placer Dome notebook. It was unable to obtain a controlling share of Stikine Resources, which owns half of Eskay Creek.

Placer bought 45 per cent, but its competitor, Corona, also owns 45 per cent and effectively thwarted Placer Dome's attempt to place a director on the Stikine board this year. The battle for control does not appear to be over and could become a headache.

Placer Dome also had to take a writedown of C\$8.7m in the first half on its share of the Big Bell mine in Western Australia, given lower revised ore estimates.

But for now these problems appear to do little to tarnish the company's shine.

## Warner back in Pathe picture

By Alan Friedman

MR GIANCARLO PARRETTI, the controversial Italian financier who has until today to complete a \$1.3bn takeover of MGM/UA, the Hollywood studio, was yesterday producing yet another cliffhanger in the seven-month corporate saga.

Wall Street and Hollywood were abuzz with rumours of a fresh delay by Mr Parretti as it emerged that Warner Brothers had stepped back into the picture to negotiate a global home video rights deal with Mr Parretti's Pathe Communications, the vehicle for the MGM/UA takeover.

News of the possible return of the Time Warner media and entertainment group came after Turner Broadcasting, the

Atlanta-based cable empire, agreed on Sunday to pay an estimated \$200m to Mr Parretti's Pathe Communications to license for television about 1,000 films in the UA library of titles.

The 10-year Turner deal is a partial substitution by Mr Parretti of Time Warner, which last July backed out of plans to put up \$550m in loans toward the MGM deal in exchange for world distribution rights to the UA library.

The Turner transaction, subject to Pathe's consummation of the MGM takeover, complements Turner's 1986 purchase from Mr Kirk Kerkorian, who owns majority control of MGM/UA, of 3,300 titles from the MGM library. Time Warner

owns 17 per cent of Turner Broadcasting.

Time Warner in July launched a \$100m lawsuit against Pathe, alleging breach of contract and breaking off its plan to lend Mr Parretti's company \$550m for the MGM deal.

Pathe counter-sued for \$500m, but executives close to the company say the lawsuits would be cancelled if a deal is completed involving the UA library and Warner's home video division.

Pathe has already paid some \$353m toward the MGM/UA takeover, most of it as a non-refundable deposit on the acquisition. Some \$4 per share - of a total \$21.50 per share takeover bid - has been paid out to MGM/UA shareholders.

## Steady three months for Arco

By Alan Friedman

ARCO, the Los Angeles-based oil and gas company, yesterday unveiled essentially unchanged third-quarter net earnings of \$982m after stripping out special environmental charges and one-time gains relating to the sale of assets and an accident settlement.

The company's third-quarter net of \$2.79 per share was \$422m, compared with \$372m or \$2.19 in the same quarter last year. However in the latest quarter there was a special \$28m gain from an offshore accident settlement and the sale of Arco's Norwegian assets.

For the first nine months

Arco's net income was \$1.45bn, compared with \$1.55bn last year.

Third-quarter sales were more than \$1bn higher at \$4.5bn, while the nine-month revenue figure of \$13.1bn, compared with \$12.9bn in the first three quarters of 1989.

Mr Lodewick Cook, chairman, said the third-quarter result reflected the rise in crude oil prices resulting from the Gulf crisis and the loss of crude and refined oil supply from world markets.

Arco's worldwide oil and gas exploration and production operations earned \$866m after tax in the third quarter, up

from \$188m in the third quarter of 1988. Refining and marketing earned \$188m, against \$119m.

The Arco Chemical subsidiary saw its after-tax third-quarter earnings drop to \$49m from \$78m a year ago as lower styrene margins and lower domestic volumes offset margin gains from propylene oxide and derivatives.

The third-quarter net also includes a \$88m special before-tax charge related to the reduced volumes caused by the July 5 explosion and shutdown of an Arco Chemical Texas plant where several workers were killed.

## Bankers Trust turns in profit

By Alan Friedman

BANKERS TRUST, the fifth largest US bank, achieved a third-quarter net profit of \$170m, a respectable achievement in the present financial climate.

The net income compares with a \$1.4bn loss in the same quarter last year, which was caused by a special 1989 provision for loan losses on Third World sovereign debt.

Stripping out last year's special loss provision, the 1990 third-quarter figure would be slightly below the level of earnings a year ago, which is still a reasonable result given the trend toward sharply lower earnings from most New York commercial banks.

Earnings per share for the third quarter were \$1.58. Bankers Trust said its non-performing real estate assets were \$93m in the third quarter, which compares with \$25m a year ago.

Mr Charles Sanford, Jr, chairman, said the bank was able to achieve strong earnings despite the difficult economic environment, thanks to the bank's risk management, global trading and fiduciary businesses.

On Wall Street the bank's shares were marked ¼ higher yesterday morning to \$33¼.

## Varity to move headquarters

By Robert Gibbons in Montreal

VARIETY, formerly the Massey-Ferguson company, has finally got its way and is to move its corporate headquarters to Buffalo, NY.

The company has signed an agreement with Canada's Federal and Ontario governments and the Canadian Auto Workers Union, freeing it from earlier commitments to keep its headquarters in Ontario.

In return Varity undertakes to keep 1,200 manufacturing jobs in Ontario until at least early 1993. Though it will close one Kelsey-Hayes parts plant in Ontario at a cost of 450 jobs, it will invest C\$3.5m (US\$3m) to modernise another Kelsey plant nearby.

Varity will pay C\$21m to both governments as compensation for the workers laid off in the past, a further C\$12m to settle claims by 1,500 workers who lost their jobs when Massey Combines failed in Ontario in 1988, plus C\$45m into a wage protection fund.

Varity has tax loss carry-forwards of nearly US\$1bn and has said these can be used more effectively in the US.

Mr Robert Ras, Ontario premier, said the deal was "the best possible and we did not want to spend the next 10 or 15 years in the courts fighting Varity".

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September 1990

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## INTL CAPITAL MARKETS

## Better than expected UK trade figures boost gilts

By Deborah Hargreaves in London and Karen Zagor in New York

A GOOD set of UK trade figures gave a fillip to the market for gilt-edged securities yesterday as prices jumped ahead by almost a full point.

Yesterday's data marked the first time for several months that the trade figures had been much better than expectations and the numbers also proved the most encouraging in the current round of UK economic data. They showed a current account deficit of \$645m for September, against analysts' projections of \$1.2bn, and following a deficit of \$1.2bn in August.

Gilt prices were weaker at the opening of the market in response to investors' concern about the high level of wage settlements in the UK. But the release of the trade data soon added half a point to prices which remained strong for the rest of the day.

At the close of trading, a benchmark 11% per cent issue maturing in 2003/07 was 22

## GOVERNMENT BONDS

ticks higher at 101 1/4 to offer a yield of 11.44 per cent. In the futures market, the long gilt contract rose from 83.18 to 84 during the course of the day.

US Treasuries ended the day in a narrowly mixed range after moving lower in morning trading as profit-taking hit the market after overnight gains.

In late trading, the Treasury's benchmark 30-year bond was quoted 4 1/8 at 99 1/2 to yield 8.75 per cent after losing more than 1/8 at mid-session. Shorter-dated maturities were down about 1/8 point.

The Federal Reserve did not intervene in the open market and Fed funds, the rate at which banks lend to each other, ended the day at 7 1/4, below the perceived target of 8 per cent.

Lower oil prices gave bonds some support and helped offset the negative impact of the budget deficit. November crude oil was quoted down \$5.41 a barrel at \$28.38 in the afternoon, the biggest single-day move for a New York Mercantile Exchange crude contract.

The fall in oil prices was triggered by unconfirmed reports that Iraqi troops had started to withdraw from parts of Kuwait. In addition, Monday was the last trading day in the

## BENCHMARK GOVERNMENT BONDS

Coupon	Red Date	Price	Change	Yield	Week age	Month age
UK GILTS						
10.000	09/02	102-21	+0.0625	11.88	11.82	12.82
8.000	09/08	100-24	+0.0625	11.48	11.40	11.70
8.000	10/08	100-24	+0.0625	11.01	11.01	11.01
US TREASURY						
8.750	09/01	104-27	-0.1375	8.81	8.80	8.93
8.750	09/31	104-27	-0.1375	8.75	8.85	9.07
JAPAN						
No 118	4.000	98/08	84.8825	+0.354	7.71	8.05
No 128	4.000	09/01	84.2425	+0.385	7.44	7.72
GERMANY						
8.000	09/01	97.0000	+0.040	6.98	6.98	6.92
FRANCE						
OTAN	8.000	11/05	95.6538	+0.040	10.12	10.22
BTAT	8.000	03/01	95.6500	-0.050	10.23	10.35
CANADA						
10.500	10/01	95.7000	-0.350	11.25	11.30	11.12
NETHERLANDS						
8.000	07/01	96.7000	-0.080	9.18	9.22	9.22
AUSTRALIA						
13.000	07/01	97.7538	-0.052	13.41	13.57	13.57

London closing, \* denotes New York closing  
Yields: Local market standard Prices: US, UK in \$bds, others in decimal  
Technical Data/MARL Price Source

November contract, and many long positions were uncovered yesterday morning.

In the foreign exchange market, the decline in oil prices combined with technical trading to help the dollar post modest gains yesterday. In late trading, the dollar was quoted at ¥126.00 and DM15.80, compared with overnight lows in Tokyo of ¥125.70 and DM15.02.

In the absence of any economic news of note, bond market trading was quiet yesterday. The budget deficit, or lack of one, continued to exert a negative influence on the market. Although a stop-gap spending bill has been approved by the Senate and signed by President Bush, allowing the government to be financed until October 31 and extending the temporary debt ceiling of \$3.185bn, a final debt reduction package is still far from settled.

JAPANESE Government bonds traded in a narrow range, but continued to firm despite a weaker yen. The drop in the oil price is offering strong support to the Japanese market where the yield on the 11% benchmark has now fallen to 7.71 per cent.

Traders expect heavy buying from pension funds at the shorter end of the market - three- to four-year bonds - which is lifting up prices along the yield curve. The healthy market conditions look like supporting a successful auction of November bonds on Wednesday.

Traders are looking for the Ministry of Finance to establish a benchmark bond with the November issue which could be made by reopening an

existing issue. Many market participants are hoping for a reopening of September's 13% bonds which carried a coupon of 7.3 per cent.

However, others believe the MoF could achieve cheaper funds amid the market's current strength and that it is more likely to offer a coupon of 7.1 or 7.2 per cent. If this happens, traders will be disappointed and look to December for the establishment of another benchmark since the amount of 11% bonds in the market are drying up.

The MoF could also go for a smaller tranche of bonds on Wednesday, perhaps in the region of ¥600bn to ¥700bn since its funding requirements are not so great towards the end of the year.

IN GERMANY, the bond market experienced a volatile day as foreign investors moved to buy German bonds and pushed futures prices up. The futures market saw prices rise from 83.24 at the opening to a level as high as 83.38, but then the contract drifted back to 83.94.

Investors in the German market are still concerned about an increase in bond issuance in the next few months with a new issue of unit fund bonds rumoured to be launched in the next few weeks. At the same time, they believe the D-Mark has peaked and will see some consolidation.

FRENCH government bonds continued a weak-long trend of stronger prices and the spread between German and French bonds is getting narrower - close to 120 basis points.

## FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday October 22, 1990. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY	£ STG	US \$	D-MARK	YEN OF 1000	COUNTRY	£ STG	US \$	D-MARK	YEN OF 1000
Afghanistan (Afghan)	99.25	50.925	39.5671	40.4276	Cameroon (CFA Fr)	494.50	253.7198	167.3434	201.4256
Albania (Lek)	10.0000	1.6667	3.4848	4.1000	Canada (Can)	1.0000	1.0000	1.0000	1.0000
Algeria (Dinar)	13.3625	1.3362	8.2517	7.5418	Chad (CFA Fr)	494.50	253.7198	167.3434	201.4256
Andorra (Escudo)	166.6667	1.6667	3.4848	4.1000	Colombia (Col)	1.0000	1.0000	1.0000	1.0000
Angola (Kwanza)	200.0000	2.0000	10.0000	10.0000	Congo (CFA Fr)	494.50	253.7198	167.3434	201.4256
Argentina (Peso)	1.0000	1.0000	1.0000	1.0000	Cuba (Cuba)	1.0000	1.0000	1.0000	1.0000
Australia (Aust \$)	1.0000	1.0000	1.0000	1.0000	Czech Rep (Czech)	1.0000	1.0000	1.0000	1.0000
Austria (Schilling)	1.0000	1.0000	1.0000	1.0000	Denmark (Danish)	1.0000	1.0000	1.0000	1.0000
Belgium (Belga)	1.0000	1.0000	1.0000	1.0000	Dominican Rep (D.R.)	1.0000	1.0000	1.0000	1.0000
Belize (Belize \$)	1.0000	1.0000	1.0000	1.0000	Egypt (Egyptian)	1.0000	1.0000	1.0000	1.0000
Bolivia (Boliviano)	1.0000	1.0000	1.0000	1.0000	El Salvador (Salv)	1.0000	1.0000	1.0000	1.0000
Bosnia (Bosnia \$)	1.0000	1.0000	1.0000	1.0000	Ecuador (Ecuador)	1.0000	1.0000	1.0000	1.0000
Botswana (Botswana \$)	1.0000	1.0000	1.0000	1.0000	France (Fr)	1.0000	1.0000	1.0000	1.0000
Brazil (Cruzado)	1.0000	1.0000	1.0000	1.0000	Germany (DM)	1.0000	1.0000	1.0000	1.0000
Bulgaria (Bulg \$)	1.0000	1.0000	1.0000	1.0000	Ghana (Cedi)	1.0000	1.0000	1.0000	1.0000
Burkina Faso (CFA Fr)	494.50	253.7198	167.3434	201.4256	Greece (Drachma)	1.0000	1.0000	1.0000	1.0000
Burundi (Burundi \$)	1.0000	1.0000	1.0000	1.0000	Hong Kong (HK \$)	1.0000	1.0000	1.0000	1.0000
Cameroon (CFA Fr)	494.50	253.7198	167.3434	201.4256	Hungary (Forint)	1.0000	1.0000	1.0000	1.0000
Canada (Can)	1.0000	1.0000	1.0000	1.0000	Iceland (Icelandic)	1.0000	1.0000	1.0000	1.0000
Cape Verde (Escudo)	1.0000	1.0000	1.0000	1.0000	India (Rupee)	1.0000	1.0000	1.0000	1.0000
Cayman Is (Cayman \$)	1.0000	1.0000	1.0000	1.0000	Indonesia (Rp)	1.0000	1.0000	1.0000	1.0000
Central Bank (C.B.)	1.0000	1.0000	1.0000	1.0000	Iran (Rial)	1.0000	1.0000	1.0000	1.0000
Chad (CFA Fr)	494.50	253.7198	167.3434	201.4256	Israel (Sheqel)	1.0000	1.0000	1.0000	1.0000
Chile (Chilean)	1.0000	1.0000	1.0000	1.0000	Italy (Lira)	1.0000	1.0000	1.0000	1.0000
China (Yuan)	1.0000	1.0000	1.0000	1.0000	Jamaica (Jamaican)	1.0000	1.0000	1.0000	1.0000
Colombia (Col)	1.0000	1.0000	1.0000	1.0000	Kenya (Kenya Shilling)	1.0000	1.0000	1.0000	1.0000
Costa Rica (Costa \$)	1.0000	1.0000	1.0000	1.0000	Korea (Korean Won)	1.0000	1.0000	1.0000	1.0000
Cote d'Ivoire (CFA Fr)	494.50	253.7198	167.3434	201.4256	Laos (Lao Kip)	1.0000	1.0000	1.0000	1.0000
Croatia (Croatian)	1.0000	1.0000	1.0000	1.0000	Lebanon (Lebanese)	1.0000	1.0000	1.0000	1.0000
Cuba (Cuba)	1.0000	1.0000	1.0000	1.0000	Libya (Libyan Dinar)	1.0000	1.0000	1.0000	1.0000
Czech Rep (Czech)	1.0000	1.0000	1.0000	1.0000	Macao (Macao Pataca)	1.0000	1.0000	1.0000	1.0000
Cyprus (Cyprus \$)	1.0000	1.0000	1.0000	1.0000	Madagascar (Malagasy)	1.0000	1.0000	1.0000	1.0000
Dominican Rep (D.R.)	1.0000	1.0000	1.0000	1.0000	Malawi (Malawi Shilling)	1.0000	1.0000	1.0000	1.0000
Ecuador (Ecuador)	1.0000	1.0000	1.0000	1.0000	Malaysia (Malaysian)	1.0000	1.0000	1.0000	1.0000
Egypt (Egyptian)	1.0000	1.0000	1.0000	1.0000	Mali (Mali Dinar)	1.0000	1.0000	1.0000	1.0000
El Salvador (Salv)	1.0000	1.0000	1.0000	1.0000	Mexico (Mexican)	1.0000	1.0000	1.0000	1.0000
Ecuador (Ecuador)	1.0000	1.0000	1.0000	1.0000	Moldova (Moldovan)	1.0000	1.0000	1.0000	1.0000
France (Fr)	1.0000	1.0000	1.0000	1.0000	Morocco (Moroccan)	1.0000	1.0000	1.0000	1.0000
Germany (DM)	1.0000	1.0000	1.0000	1.0000	Mozambique (Mozambican)	1.0000	1.0000	1.0000	1.0000
Ghana (Cedi)	1.0000	1.0000	1.0000	1.0000	Nicaragua (Nicaraguan)	1.0000	1.0000	1.0000	1.0000
Greece (Drachma)	1.0000	1.0000	1.0000	1.0000	Niger (Niger CFA Fr)	494.50	253.7198	167.3434	201.4256
Hong Kong (HK \$)	1.0000	1.0000	1.0000	1.0000	Nigeria (Nigeria Naira)	1.0000	1.0000	1.0000	1.0000
Hungary (Forint)	1.0000	1.0000	1.0000	1.0000	Paraguay (Paraguayan)	1.0000	1.0000	1.0000	1.0000
Iceland (Icelandic)	1.0000	1.0000	1.0000	1.0000	Peru (Peruvian)	1.0000	1.0000	1.0000	1.0000
India (Rupee)	1.0000	1.0000	1.0000	1.0000	Romania (Romanian)	1.0000	1.0000	1.0000	1.0000
Indonesia (Rp)	1.0000	1.0000	1.0000	1.0000	Russia (Russian Ruble)	1.0000	1.0000	1.0000	1.0000
Iran (Rial)	1.0000	1.0000	1.0000	1.0000	Saudi Arabia (Saudi Rial)	1.0000	1.0000	1.0000	1.0000
Israel (Sheqel)	1.0000	1.0000	1.0000	1.0000	Senegal (Senegalese)	1.0000	1.0000	1.0000	1.0000
Italy (Lira)	1.0000	1.0000	1.0000	1.0000	Seychelles (Seychelles)	1.0000	1.0000	1.0000	1.0000
Jamaica (Jamaican)	1.0000	1.0000	1.0000	1.0000	Sierra Leone (Sierra Leone)	1.0000	1.0000	1.0000	1.0000
Kenya (Kenya Shilling)	1.0000	1.0000	1.0000	1.0000	Singapore (Singapore)	1.0000	1.0000	1.0000	1.0000
Korea (Korean Won)	1.0000	1.0000	1.0000	1.0000	Slovakia (Slovak)	1.0000	1.0000	1.0000	1.0000
Laos (Lao Kip)	1.0000	1.0000	1.0000	1.0000	Slovenia (Slovenian)	1.0000	1.0000	1.0000	1.0000
Lebanon (Lebanese)	1.0000	1.0000	1.0000	1.0000	Spain (Spanish)	1.0000	1.0000	1.0000	1.0000
Libya (Libyan Dinar)	1.0000	1.0000	1.0000	1.0000	Sweden (Swedish)	1.0000	1.0000	1.0000	1.0000
Macao (Macao Pataca)	1.0000	1.0000	1.0000	1.0000	Switzerland (Swiss)	1.0000	1.0000	1.0000	1.0000
Madagascar (Malagasy)	1.0000	1.0000	1.0000	1.0000	Taiwan (Taiwan Dollar)	1.0000	1.0000	1.0000	1.0000
Malawi (Malawi Shilling)	1.0000	1.0000	1.0000	1.0000	Thailand (Thai Baht)	1.0000	1.0000	1.0000	1.0000
Malaysia (Malaysian)	1.0000	1.0000	1.0000	1.0000	Togo (Togo CFA Fr)	494.50	253.7198	167.3434	201.4256
Mali (Mali Dinar)	1.0000	1.0000	1.0000	1.0000	Tonga (Tonga Pa'anga)	1.0000	1.0000	1.0000	1.0000
Mexico (Mexican)	1.0000	1.0000	1.0000	1.0000	Trinidad (Trinidad Dollar)	1.0000	1.0000	1.0000	1.0000
Moldova (Moldovan)	1.0000	1.0000	1.0000	1.0000	Tunisia (Tunisian)	1.0000	1.0000	1.0000	1.0000
Morocco (Moroccan)	1.0000	1.0000	1.0000	1.0000	Turkey (Turkish Lira)	1.0000	1.0000	1.0000	1.0000
Mozambique (Mozambican)	1.0000	1.0000	1.0000	1.0000	Uganda (Uganda Shilling)	1.0000	1.0000	1.0000	1.0000
Nicaragua (Nicaraguan)	1.0000	1.0000	1.0000	1.0000	United Kingdom (Sterling)	1.0000	1.0000	1.0000	1.0000
Niger (Niger CFA Fr)	494.50	253.7198	167.3434	201.4256	USA (Dollar)	1.0000	1.0000	1.0000	1.0000
Nigeria (Nigeria Naira)	1.0000	1.0000	1.0000	1.0000	USSR (Ruble)	1.0000	1.0000	1.0000	1.0000
Paraguay (Paraguayan)	1.0000	1.0000	1.0000	1.0000	Vanuatu (Vanuatu Dollar)	1.0000	1.0000	1.0000	1.0000
Peru (Peruvian)	1.0000	1.0000	1.0000	1.0000	Venezuela (Venezuelan)	1.0000	1.0000	1.0000	1.0000

## World Bank taps D-Mark sector with long-dated deal

## INTERNATIONAL BONDS

Yesterday's DM750m issue of

Primary market rumours continue to centre on possible issues from Ontario Hydro. The borrower is taking the unusual step of vetting possible syndicate members for

Bonds issued by the Republic of Finland guaranteed agency Finnish Export Credit and state bank Postipankki held steady on news that Moody's Investors Service had downgraded debt issued by them to AA-1, from Triple-A. The downgrading, which had been expected in the market, affects \$6.8bn of outstanding debt.

**DRESDNER Bank**, the second

Instead, it is offering PCs with a coupon of 9.5 per cent at an issue price of 98.25. The lower 9.4 per cent effective yield arises because the interest payment can only be made after the annual meeting, on June 30 of each year.

The PCs carry no voting shares, and are offsettable against tax for the issuer. They count as risk capital because holders participate in balance sheet losses, and rank for payment behind all other bank creditors, though before ordinary shareholders.

However, UK companies have so far been loth to issue more sophisticated forms of structured instruments embraced by US corporations. These more complex structured placements are often a hybrid between traditional debt securities and derivative financial products. The business is investor-driven, with deals structured to offer the investor a specific package of currency, interest rate, equity and even commodity risk exposure – but embedded in a tailored security.

Few market participants will guess at the size of the structured placement business. The existence and structure of many deals remains a closely guarded secret. None of the leading UK houses active in the market, including Schroders, Warburgs, Barings and Kleinwort Benson, will publicise their highly structured deals.

Others active in the area, such as Nippon Credit International and Westpac, are equally coy. As a rule, only the more straight-forward placements

The main demand for structured placements comes from Japanese, US and European institutional investors hungry for new products. They are denied access to swaps and options by either their own internal guidelines or the rules imposed by regulatory authorities. There is a booming market for structured derivatives, a feature of swaps and options to make them acceptable to market regulators.

There is particular demand from asset managers who face multi-currency exposure but are denied access to "naked options" — where the option is held without an underlying holding of stock. Swaps are structured without the purchase of option, but

Although no current market figures are available, the business appears to be healthy. The Gulf crisis has introduced elements of uncertainty that are impossible to hedge, driving investors into short-term instruments or cash. Although even here the flexibility of structured placements has won new adherents.

Banks are simply designing one-month placements that can be rolled over for up to five years at the option of the client. While the appetite of Tokyo fund managers has lessened this year, European and US institutions are beginning to understand and accept structured securities.

**They are Royal Bank of Canada, Canadian Imperial Bank of Commerce and Bank of Nova Scotia. They have filed on behalf of their broker subsidiaries RBC Dominion Securities, Wood Gundy and Scotia McLeod.**

The Treasury cannot issue government paper exceeding a temporary debt ceiling of \$3,195bn which is not being increased because of the prolonged wrangling over the budget.

The Treasury put off an auction on Thursday of 52-week

The government is due to announce plans for a major quarterly refunding next Wednesday in a sale that is expected to total \$30bn.

[illegible]

Page No.	Date	Page No.	Date	Page No.	Date

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TRADITIONAL OPTIONS		
● First Dealings	Oct. 15	Calls in Brent Walker, Burton,
● Last Dealings	Oct. 26	Conroy Pet. & Natural Res., Coun-
● Last Declarations	Jan. 24	treside Props., Eurotunnel war-

For rate indications see end of  
London Share Service

The release of the latest LUK trade figures, which were better than expected, prompted a small rally in futures. Further, a recent December closed 25 higher at 2,182, while its premium over the cash index ended at 50 cents. According to brokers' calculations of the cost of finance and future dividend payments, December should actually be 35 points above the cash index.

(304)	300	16	46	38	8	11	14	(F980)	390	10	30	20	32	38	39	420	8	34	30	47	39	60
	350	16	46	38	8	11	14	BAT index							260	15	37	32	12	16	27	
	350	16	46	38	8	11	14	(F959)	376	11	544	70	12	25	27				22	37	31	
(JF 350)	300	45	35	60	4	7	9	RTT	308	18	43	48	4	15	27	250	19	32	38	8	17	18
	350	45	35	60	4	7	9	(F959)	330	18	43	48	4	15	27	250	19	32	38	8	17	18
	350	45	35	60	4	7	9	RTT	330	18	43	48	4	15	27	250	19	32	38	8	17	18
(British Steel 110)	110	15	18	20	3	4	8	Tele. Relays	260	11	22	14	16	28	23	220	30	12	25	32	35	35
	120	5	12	14	5	9	12	(F955)	240	14	12	22	17	25	28	220	30	12	25	32	35	35
	120	5	12	14	5	9	12	(F955)	240	14	12	22	17	25	28	220	30	12	25	32	35	35
(Soc. Gen 10402)	1000	77	114	146	147	44	70	Galaxy 304	300	18	34	40	5	11	17	650	38	120	135	27	50	54
	1050	25	65	65	94	94		(F951)	330	8	34	40	5	11	17	650	38	120	135	27	50	54
	1100	25	65	65	94	94									140	25	32	33	21	8	13	
(J & Winc 730)	390	40	75	85	10	16	20	700	30	34	38	77	14	35	42	300	10	34	38	77	14	35
	420	39	57	65	10	16	20	750	7	33	20	50	36	63	300	10	34	38	77	14	35	
	450	20	57	65	10	16	20	120	10	16	26	4	9	11	23	260	15	37	32	12	16	27
(Mortgage 350)	300	39	59	39	34	6	11	200	20	24	9	16	16	16	20	260	15	37	32	12	16	27
	350	39	59	39	34	6	11								260	15	37	32	12	16	27	
(Gen. Union 460)	450	35	72	75	7	18	23	Hammet (F949)	180	17	15%	34	15	6%	6%	600	47	66	37	14	20	35
	460	35	72	75	7	18	23	LSM80	208	4	9%	34	15	6%	6%	650	20	42	57	46	48	60
	500	17	28	35	3	10	13	420	42	37	23	23	23	23	130	14	28	35	4	7	11	
								Lucas index (F117)	110	11	14	20	7	17	13	140	8	12	14	4	11	15
(J2 510)	300	36	39	45	15	23	25		180	6	9	13	14	17	20	60	14	18	20	4%	7%	15
	350	14	22	22	22	22	22	P. & O. (F912)	500	30	37	13	26	34		450	45	67	84	14	28	30
	500	105	110	120	45	11	16		550						500	50	27	47	62	34	40	
(Soc. Gen 10402)	1000	77	114	146	147	44	70	Galaxy 304	300	18	34	40	5	11	17	650	38	120	135	27	50	54

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## UK COMPANY NEWS

## Only 3.6% take up £37m rights issue from Wace

By Andrew Hill

WACE GROUP, the pre-press services group which launched a £37m convertible share issue on the eve of the Iraqi invasion of Kuwait, revealed yesterday that only 3.6 per cent of the rights had been taken up by existing shareholders.

The rest of the issue was left with the underwriter, Barclays de Zoete Wedd, and more than 50 sub-underwriters.

De Zoete & Bevan, broker to the issue, said yesterday: "It wasn't surprising given the way the ordinary share price moved."

The rights issue coincided with the company's £12m agreed bid for its rival Parkway Group and the proceeds will be used to offset Parkway's debts.

The terms attached to the 8 per cent convertible preference shares suggested an effective conversion price of 350p per ordinary share. But since the rights issue and acquisition were announced on August 1, Wace shares have fallen from 326p to yesterday's closing of 186p, down 6p on the day.

They now stand at their lowest point since early 1988, in spite of the August announcement of interim pre-tax profits at the top end of City expectations.

Wace is regarded as one of the strongest companies in the depressed market for pre-press services - preparing photo-

## Wace Group

Share price (pence)



Rights issue August 1st

Source: Datastream

graphs for magazine or poster publication - but observers suggested yesterday that shareholders had spurned the issue partly because they were worried about Wace's ability to revive Parkway. Only 1.34m of the £37m convertible shares provisionally allotted were taken up. They now trade at 73p compared with the rights price of 100p.

This is the third Wace cash call to have fallen foul of a weakening stock market. The first was announced at the end of September 1987 and 38.9 per cent of the rights were eventually taken up. About 80 per cent of a second issue, launched just before last October's mini-crash, was left with the underwriters.

## Pigment bargain could be a pig in a poke

THE PRECIPITATE fall from grace of the Cookson Group over the past year, and particularly the rumour-driven collapse in its share price last month, caused concern not only in the City but also on the Thames at the Millbank headquarters of the giant chemical group ICI.

By the beginning of September ICI executives were beginning to worry that Cookson's debt problems might affect the stability of Tioxide, the world's second largest paint pigment maker, which is owned jointly by ICI and Cookson. At the same time ICI scented an opportunity to take sole control of Tioxide at a bargain price.

Meanwhile the directors of Cookson, one of the UK's largest industrial materials groups, faced irresistible pressure from financial institutions to reduce the company's debt load, as its trading position deteriorated and interest payments moved close to the dangerous point where they would be less than two times covered by earnings.

That was the starting point for the negotiations which ended late on Sunday evening, with Cookson agreeing to sell its 50 per cent share in Tioxide to ICI for £160m. Cookson will also receive an interim dividend of 111m from Tioxide for the current financial year.

In terms of historic earnings, ICI certainly seems to have squeezed extremely advantageous terms out of Cookson's financial distress. The deal val-

ues Tioxide at little more than twice its 1989 pre-tax profits of £200m on titanium dioxide sales of £700m.

But Mr Michael Henderson, Cookson chairman and chief executive, says the historic figures give a very misleading impression of Tioxide's prospect for the 1990s.

During the second half of the 1980s Tioxide was a very lucrative source of cash for its two shareholders, demand for titanium dioxide, a brilliant white pigment for paints, plastics

clean up its plants, which discharge large quantities of acid, and to introduce new technology. Tioxide is operating at a competitive disadvantage to Du Pont and some other important competitors, which use an environmentally more acceptable process.

Mr Henderson said Tioxide's capital expenditure requirements could be as much as £700m over the next five years. ICI put the figure much lower - in the region of £200m. Analysts say that both sides may

## Clive Cookson details the sale of Cookson's 50% stake in Tioxide to its partner ICI

and other materials, increased steadily and production capacity remained limited. Cookson received £200m in Tioxide dividends between 1985 and 1989.

But in 1990 industrial demand for the pigment has fallen sharply and so has its price.

"Only today Du Pont [the largest titanium dioxide maker] announced another reduction in the dollar price," Mr Henderson said last night. "As more production capacity comes on stream during the early 1990s, including a new Tioxide plant in Malaysia, the pigment is likely to stay over-supplied, Cookson believes."

And Tioxide faces capital expenditure running into hundreds of millions of pounds to

be exaggerating to make their point, and the true investment requirement is likely to be between £330m and £400m.

The Tioxide sale will reduce Cookson's net debt to a level well below £400m, said Mr Fergus Munro, finance director. "It will take the interest cover to between three and four times."

"Following the disposal," said Mr Henderson, "Cookson will focus its management and financial resources on its core activities in ceramics, plastics and metals."

Cookson will still be looking for further disposals of businesses that do not fit in with its long-term strategy. "But the Tioxide deal takes the pressure off," Mr Henderson com-

mented. The company's negotiating position will be much stronger and it will not have to deal with would-be purchasers from a position of financial distress, he added.

Both Cookson and ICI yesterday expressed confidence that the Tioxide deal would survive scrutiny from the European Community's merger control authorities. But some analysts said that it could run into trouble, as ICI would become the owner both of the world's largest paints business and of the second largest pigments supplier.

Mr Henderson said it was possible, now that the deal was public knowledge, that another company would come in with a bid either for the whole Tioxide business or for Cookson's half-share.

Under the agreement, if ICI sells more than 50 per cent of Tioxide before the end of February 1991, Cookson will be entitled to a pre-specified share of profits from such a sale. ICI says it "has no present intention to make any such sale".

According to Mr Henderson, the Tioxide sale secures the future of Cookson as a leading industrial materials manufacturer. On a personal level, he says: "The most difficult thing over the last few weeks has been not being free to explain what we're doing. I feel extremely relieved that we can now start to tell the real story."

See Lex

## Beazer loan broke 1985 Companies Act

By Maggie Urry

BEAZER, the heavily-indebted housebuilding, contracting and building materials group, broke the Companies Act 1985 by lending £350,000 to Mr Alan Chapple, the group's finance director, so that he could buy a house.

The group admitted the breach of Section 330, which forbids companies making loans to directors, in its latest accounts, for the year to June 30. They also show that the group's high level of debt was reduced by £253.8m and that profits were boosted by a pension fund credit.

Beazer's shares were unchanged yesterday at 90p. Mr John Miners, director of accounting, said that the group had told the Depart-

ment of Trade and Industry and the Stock Exchange about the "technical breach" of the Companies Act. He said a "slap on the wrist" had been administered but Beazer had been told it would not be prosecuted.

The loan was made to Mr Chapple in July 1988 as a temporary bridging facility and was only spotted by the group's joint auditors in September this year when they saw the accounts. Mr Chapple then repaid the amount outstanding.

The accounts also show that group profits before tax and exceptional items of £95.5m (£181.1m) included a credit of £11.6m (nil) because of a surplus in the US pension

scheme. Mr Miners said credits in future years would depend on what assumptions were made.

Beazer had net debt at the year end of £880.5m (£1.13bn), representing 83.7 per cent (99 per cent) of shareholders' funds. Of the reduction in debt, Mr Miners said £122m came from exchange rate moves, particularly on the dollar borrowings, which form 96 per cent of the total. Sterling rose from \$1.85 to \$1.74 during the year.

Beazer also sold trade debtors to repay debt. At the year end trade debtors had a face value of £118.7m had been sold, and the discount and fees related to this programme totalled £10.9m, shown under

"other expenses".

Mr Miners said this represented a lower cost than the 10.1 per cent average rate of interest the group was paying on its debt during the 1989-90 year.

The accounts also show that under US accounting principles, Beazer's fully diluted earnings per share would have been 7.82p (26.1p) rather than the reported 21.51p (28.9p). The difference is largely explained by a £28m extraordinary debit relating to the write-off of Beazer's investment in Girvan Corporation, an Australian group which went into receivership. Under US accounting principles this debit would be included in net income.

## Mixed new business for London and Manchester

LONDON AND Manchester Group, the Exeter-based life insurer, reported a mixed set of new business results, with an increase in annual premium business offsetting a fall-off in revenues from new single premiums, writes Richard Lapper.

Total new annual premiums rose nearly 13 per cent, from £31.5m to £35.7m, in the first nine months of 1990. New annual premiums at the life broker division expanded by 35 per cent to £18.1m, reflecting the continuing expansion in

the agency network. A further 14 agents have been added since June 30, bringing the total to 632, compared with 573 at the end of last year.

Total single premiums were down by 19 per cent to £47.9m. New single premium pensions business was worst hit, falling 25 per cent to £16.2m.

Mr John Thomson, chairman, blamed the depressed economic climate and uncertainties in the corporate pensions sector as a result of recent legal judgments.

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## TOKYO TRUST S.A. INTERIM DIVIDEND

An Interim Dividend of US\$0.06 per share will be payable on 9th November 1990 to holders on the Register on 2nd November and to holders of the Bearer Shares against presentation of coupon No. 35 at the Paying Agent:-

Singer & Friedlander Ltd  
21 New Street, London EC2M 4HR  
OR

Kreditbank S.A. Luxembourg  
43 Boulevard Royal, Luxembourg

By order of the Board  
TOKYO TRUST S.A.

ARAB INTERNATIONAL BANK  
BALANCE SHEET

June 30, 1990 and 1989  
(Expressed in thousands of US dollars)

المصرف العربي الدولي

## ASSETS

Cash and due from banks	39,024	24,125
Time deposits	1,131,721	1,004,566
Negotiable certificates of deposit	280,000	250,000
Investments:		
Marketable notes and bonds	46,192	41,699
Equity participations	101,994	104,627
Loans and advances, less provision	553,924	558,193
Accounts receivable and accrued interest	36,208	34,894
Property and equipment	58,073	57,527

2,247,136

2,075,631

## LIABILITIES AND SHAREHOLDERS' EQUITY

Demand deposits	211,689	177,180
Time deposits	1,701,266	1,577,430
Accounts payable and accrued interest	76,779	64,958
Proposed dividends	6,600	6,600

Total liabilities

1,996,334

1,826,168

## Shareholders' equity:

Share capital	165,000	165,000
Statutory reserve	37,020	35,737
General reserve	47,480	47,263
Retained earnings	1,302	1,463

Total shareholders' equity

250,802

249,463

2,247,136

2,075,631

Liabilities under credits, guarantees and acceptances

353,455

379,921

Mr. ABDULLATIF A. EL KIB  
Managing Director

Dr. MOSTAFA KHALIL  
Chairman

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Telephone: 531611

Heliopolis Branch: (Under Establishment)

## UK COMPANY NEWS

# Mixed fortunes as Hammerson dips to £33.6m

By Vanessa Houlder, Property Correspondent

THE HAMMERSON Property Investment and Development Corporation, the UK's third largest property company, yesterday revealed a fall from £38.2m to £33.6m in pre-tax profits for the six months to June 30.

An increase in rental income was offset by a reduction in profits from disposals and a rise in financing costs.

Mr John Parry, managing director, said that net rental income, which rose by 24.7m to £56.1m, was increasing in line with the forecast made in the 1989 defence against the bid by Rodamco, the Dutch investment group. This predicted that UK income would increase by 100 per cent and world-wide income by 70 per cent by December 1993.

Hammerson, which has the most international spread of business of the UK property companies, experienced mixed fortunes in all its markets, with the exception of continental Europe where rental growth was strong.

In the UK, which accounts for 38 per cent of the portfolio, City office rentals were under strain while most shopping centres were holding up well, he said.

The profit of £5.41m (£9.75m) from disposals was the third tranche of the proceeds from the sale of River Plate House in London. Mr Parry said he expected profits from disposals for the year would match last year's £14m total, through sales of German property.

Mr Parry said that Hammerson was looking for acquisitions that would bring its UK weighting close to 50 per cent. In the past six weeks, he had begun to see some prime city offices and retail properties appear on the market at acceptable yields.

Hammerson, which has gear-



Sydney Mason: Hammerson chairman

ing of 44 per cent, has £250m of undrawn committed facilities available for acquisitions, although it is adamant that interest charges should not exceed rental income.

The company is also planning to expand in France, Germany and Spain. It said it had been looking at possibilities in parts of eastern Germany, notably Dresden and Leipzig, but had been deterred by the lack of infrastructure.

Terms have been agreed with National Power for the leasing of two thirds of Dominant House, Hammerson's 155,000 sq ft office development in the City of London.

Financing costs increased from £20.26m to £24m, resulting mainly from the refinancing of the £380m A preference shares.

Earnings per share decreased from 15.7p to 12.7p. An unchanged dividend of 3.5p is declared.

See L25

## DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Corresponding dividend	Total for year	Total for last year
Allied Life Props —fin	2.455	Jan 3	2.225	3.53p	3.3
Clydesdale Inv —fin	2.45	Jan 7	2.2	3.46	3.1
Darby S —int	1.2	Jan 26	1.2	—	3.3
Hammerson Prop —int	3.5	Dec 10	3.5	—	19.5
Lucas Inds —fin	4.8p	Jan 18	4.5	7	6.25
Mowat S —fin	nil	—	1	0.5	1.5
Scott Mill Prop —fin	4.22	Jan 7	3.75	6.75	6

Dividends shown pence per share net except where otherwise stated. \*Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ‡USM stock. \*Carries scrip option.

# Severn Trent seeks to lapse Caird offer

By Andrew Bolger

SEVERN TRENT, the recently-privatised water company, wants to lapse its 100p per share offer for Caird Group — in spite of yesterday announcing that it had received acceptances from owners of 55.2 per cent of the waste management group's ordinary shares.

Severn Trent has asked the Takeover Panel for permission to withdraw its hostile £78m cash bid and also to be given the option of submitting a lower offer. It is hoped the Panel will rule — at least on the first question — today.

Caird shares yesterday closed 5p lower at 52p, while Severn Trent shares rose 6p to 202p.

Caird last week recommended that its ordinary shareholders should accept the offer. Severn Trent yesterday extended its offer until next Tuesday, pending the Panel's ruling.

The water company made its offer conditional on Caird repeating a forecast, given on September 4, that it would make pre-tax profits of £8.5m in the 18 months to December 31. In fact, Caird said last week it would make only £7.15m, and made extraordinary provisions of £4.83m to cover anticipated losses and closure costs.

Severn Trent is also considering suing Caird over losses which the water company has incurred in building a 29.98 per cent stake in the waste group, on the basis of Caird's results and profits forecast.

Caird contends the profits forecast was not audited and that Severn Trent was warned before the bid was launched not to place too much reliance on the £8.5m figure.

Severn Trent said it had received acceptances from owners of 16.7 per cent of Caird's preference shares, for which it offered 60.3p per share. Caird has advised its preference shareholders to hold out for more. Yesterday the preference shares closed 2p lower at 43p.

The water company was also concerned by Caird's defence document, which referred to 17.6m on m of existing and void space with planning permission for landfill at 24 of the group's 28 landfill and mineral sites.

Analysts said they had earlier understood from Caird it had 30m on m with licences for waste disposal, and not just the planning permission referred to by Caird's valuers.

# Creditor hawks forgather for the Polly kill

The banks are impatient. The 12th hour for Nadir's group nears. Richard Waters reports

POLLY PECK International has been walking a tightrope ever since defaulting on payments to its creditors last month.

A strong prod from any direction could upset its delicate balance. Administration, if it comes, could strike the group from a number of angles.

The banks remain the most likely prodgers. They were owed all but £400m of Polly Peck's £1.3bn of outstanding debts at September 30. The initial hawkishness of some banks was tempered by a more conciliatory attitude from others. Now, however, the doves' patience appears to have been exhausted.

Mr Asil Nadir has so far managed to remit only \$10m (£5.1m) from northern Cyprus, despite promising the money as long ago as October 7. He had been making the same promises to his own directors for at least two weeks before this.

As time has gone on, patience has dwindled. One steering committee bank, which as recently as last week was sounding optimistic about Polly Peck's future, yesterday offered little hope for its survival beyond tomorrow, if Mr Nadir cannot raise more cash from Turkey and northern Cyprus.

The 10-strong steering committee of leading creditors would not need to call a meeting of the bank creditors — similar to the two held earlier this month — to bring about the appointment of administrators.

In theory, any creditor can individually petition the court for an administration order. In practice, a judge hearing such a petition would want further evidence from other creditors before proceeding: an administration is intended to work in favour of all creditors, not just one.

As a result, most administrations come about after creditors have made it clear to a company's directors that the end has come, and the directors themselves petition the court. Directors, wary of the personal liability they face if they continue to trade in such circumstances, are unlikely to resist such pressure.

The steering group of 10 creditors (banks, banks and Legal & General, the insurance company) would be the most likely vehicle for conveying the view that the end has come. It has no legal power to act on behalf of the banks, but carries considerable weight given that its members are among the largest individual creditors.

While the banks hold the whip hand, other creditors, singly or in groups, could themselves determine the outcome. In the past week, they have become increasingly restless and begun to agitate for repayment, giving the banks the uncomfortable feeling that control of the situation may be slipping away from them.

The others are: ● Holders of Polly Peck's commercial paper, which pose the most serious threat, since money owed to them is already overdue, and — unlike on bank loans — interest is not rolled up if the facility is not renewed. Some £24m was due

to be repaid during this month, together with interest. Commercial paper holders met Polly Peck yesterday morning to discuss the situation. At least one of them, the property company British Land, has already started legal proceedings to recover its money.

In a statement yesterday, British Land said: "We are in a statutory notice demanding repayment and does not receive its cash within three weeks (this would be *prima facie* evidence under the Insolvency Act that the company was insolvent)."

● Holders of the company's bonds. Polly Peck owes bondholders SF\$650m (£260.62m) and DM1,000m (£33.57m), although none falls due before November 19, when SF\$50m is due to be repaid.

Although no money is overdue, the bondholders still pose a threat. Cross-default clauses give them the power to call for early repayment, if Polly Peck has defaulted on other payments.

Bondholders are preparing to meet to consider just these things: on October 31, in the case of the six Swiss franc issues, and November 2 for the D-Mark bonds.



which under Mr Nadir has been transformed into Turkey's main quality daily, yesterday gently dismissed claims that his paper was unable to buy more newspaper.

"We are doing our best to muddle through somehow," he said. But he appeared to share the general pessimism in the group which holds that it will be placed in the hands of an administrator in the next few days.

Banks in Istanbul say that Mr Nadir is still trying to find a buyer for Inyap Bank, the small bank which he bought two years ago. "We have held discussions with some possible buyers," one Istanbul banker said yesterday.

One of Polly Peck's main Turkish backers, Yapi ve Kredi Bankasi, said yesterday that a £22.5m loan to the group announced 10 days ago had not been disbursed.

"Polly Peck have told us that they do not need the money for the time being and so preliminaries to making the loan, such as mortgage agreements for collateralisation, have not so far been carried out," the bank said.

Now print orders are being out and unimpaired economies are being made. Newer and cheaper suppliers are being sought and the axe has begun to fall. At least one senior expatriate in Berkeley Media in Istanbul, handling Mr Nadir's upmarket English-language printing operations, was made redundant last week.

Mr Merin Mürin, editor of *Güneş*, an Istanbul newspaper empire even includes an embryonic satellite television operation with German partners.

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which under Mr Nadir has been transformed into Turkey's main quality daily, yesterday gently dismissed claims that his paper was unable to buy more newspaper.

"We are doing our best to muddle through somehow," he said. But he appeared to share the general pessimism in the group which holds that it will be placed in the hands of an administrator in the next few days.

Banks in Istanbul say that Mr Nadir is still trying to find a buyer for Inyap Bank, the small bank which he bought two years ago. "We have held discussions with some possible buyers," one Istanbul banker said yesterday.

One of Polly Peck's main Turkish backers, Yapi ve Kredi Bankasi, said yesterday that a £22.5m loan to the group announced 10 days ago had not been disbursed.

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# Spurs holders still await clarification over finances

By Andrew Hill

SHAREHOLDERS in Tottenham Hotspur, which owns the famous London football club, are still awaiting a formal explanation of the developing situation at the company, following conflicting reports at the weekend about its financial health.

Umbro yesterday confirmed that it signed a deal with Spurs about 10 days ago, under which

the Manchester sportswear manufacturer will have sole right to use the Spurs badge on products for four years, beginning next June.

It is understood that the contract is worth about £4m, of which £1.1m may already have been paid. Umbro would not comment on the value of the deal, but it could provide temporary relief for Spurs

which is labouring under a heavy burden of debt. A private company controlled by Mr Irving Scholar, Spurs club chairman, lent £1.1m to Spurs at the beginning of August, having borrowed the sum from Headington Investments, a vehicle for Mr Robert Maxwell, the publisher, and his family.

Mr Scholar has to repay the sum before next Monday, unless he can vary the loan agreement.

A circular on the loan and other matters is expected shortly. Spurs' shares were suspended at 9p last Friday after the Stock Exchange said there was not enough public information available for investors to value the shares.

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## UK COMPANY NEWS

## IMI makes £12m hostile offer for Birmingham Mint

By Andrew Hill

A HOSTILE bid battle broke out yesterday between two Birmingham-based coin-minting companies, Birmingham Mint and IMI, which runs a tiny minting subsidiary as part of its international engineering activities.

IMI launched a £12.2m cash offer for Birmingham Mint, which it described as "undervalued and opportunistic" and advised shareholders to take no action.

IMI is offering 85p for each Birmingham Mint ordinary share, and 80p for each preference share. Birmingham Mint's ordinary shares rose 23p to 83p yesterday, and IMI slipped 2p to 185p.

The two companies and the Royal Mint are part of a consortium which makes coins for overseas companies outside the EC. Birmingham Mint and IMI, which do not mint British coins, share about a third of the consortium's business.

Mr John Metcalf, IMI's company secretary, said the group had tried to persuade Birmingham Mint to recommend a takeover to its shareholders, although the target company said it had no material discussions with IMI.

"What we are trying to do is establish a leading market and technical position in all our niche areas. We think that by acquiring Birmingham Mint

we can double our size in minting," he said yesterday. He added that IMI would review the future of Birmingham Mint's engineering and electronics subsidiaries once it knew more about them.

Birmingham Mint has suffered recently because of a weakening performance from its electronics and engineering subsidiaries. It reported pre-tax profits of £206,000 in the year to end-March, compared with £241m in 1988-89.

IMI claimed yesterday that the smaller company would be unable to afford the capital investment needed to mint plated coinage, for which demand is increasing. But Mr Tony Cross, Birmingham Mint's chairman, said IMI's claim did not stand up to serious examination.

He pointed out that disposals of the group's loss-making electronics contacts business and Birmingham head office had reduced the group's borrowings from £4.6m to £2m.

IMI also questioned the sustainability of Birmingham Mint's 30 per cent tax charge, but Mr Cross said the group would be able to offset the electrical contacts subsidiary's trading losses against its tax liabilities "for some years".

Birmingham Mint is advised by Chartered WestLB, IMI by Samuel Montagu.

## Darby sales surge but profits show 10% fall

DARBY GROUP, the USM-quoted maker and distributor of specialised glass products, saw pre-tax profits fall 10 per cent in 1989-90, but considered that satisfactory in view of the continuing difficulties in the building and building materials industries.

Sales in the year to August 31 rose 36 per cent to £8.97m (£5.13m), reflecting price cuts. The business was volume related and it was important to maintain share, said Mr Michael Darby, chairman.

Profit came to £870,000 (£967,000). The interim dividend is again 1.2p from earnings of 4.1p (4.4p).

Mr Darby said difficult conditions would continue for the next few months, so it was pleasing that gearing remained "comfortable at under 40 per cent".

Results included a good contribution from the joint venture in Best Tempered Glass, which was operating satisfactorily. Darby (South East), bought in December, continued to struggle in a poor environment and incurred trading losses of £170,000.

"We had difficulty in establishing a quality workforce," said Mr Darby. The business had been rationalised.

Mr Darby said the date was close for the start-up of trading operations in France.

## Increased losses at TDS Circuits

Losses at TDS Circuits increased from £1.08m to £1.22m pre-tax in the six months to August 31. The USM-quoted company, which has reported profits in only one of the last five years, said that actions to return to profit were proceeding well.

Significant investments had been made to improve layout, handling and process control but these were taking place in an unfavourable market which was not expected to get better before the end of the year.

Turnover was lower at £2.41m (£4.33m) for an operating loss of £1.05m (£842,000). After a nil (£374,000) tax charge the loss per share was 19.5p (7.82p) or 3.41p (7.61p) fully diluted.

## Hope for the weakest company

David Thomas looks at the impact of local growth on South Wales

SOUTH WALES Electricity is widely seen as one of the weaker brethren among the 12 regional electricity companies heading for their stock market debut in December.

Not only is it the smallest regional company, with sales last year of just £804m, it also recorded arguably the worst performance when the companies announced their final public sector results in July. Historic cost operating profit fell by 22 per cent to £21.2m in 1988-89; on a current cost basis the decline was 58 per cent to £4.3m, giving a return on assets of just 1 per cent.

To make matters worse, South Wales lost fully 37 per cent of its supply business, more than any other regional company, in the initial outburst of competition this year. Industrial customers, slow growing and liable to be poached, are more important to South Wales than to any regional company.

Its heavy dependence on steel, coal, oil and chemicals underpins the judgment of UBS Phillips & Drew, one of the few large City firms not acting as a broker to an electricity concern, that "this company represents a high risk investment compared to the average of the (regional) companies".

Yet this may paint an unduly gloomy picture of South Wales's prospects in the private sector. True, like other regional companies, South Wales is heavily geared to its local economy because it derives the bulk of its profits from charges for electricity passing over its distribution wires. But it may be poised to benefit from a decade of local economic restructuring.

## South Wales Electricity



Wynford Evans: loss of supply customers not a big blow

## Customer breakdown of sales

	South Wales(%)	Industry(%)
Domestic	24.4	34.4
Commercial	15.2	23.5
Industrial	57.4	35.7
Other	2.9	3.0

Source: UBS Phillips &amp; Drew

The region has broadened its industrial base through a successful drive to attract inward investment, notably from Japanese electronics companies. It has also begun to develop its small commercial sector, with organisations like the TSB and the Patents Office leading a relocation wave.

Even heavy industry in South Wales has been transformed. British Steel's main plants at Llanwern and Port Talbot are now recognised as among the most efficient in Europe, while the round of pit closures has reduced South Wales's exposure to British Coal.

Analysts are divided about the region's economic prospects, with Phillips & Drew predicting an economic perfor-

mance in the 1990s slightly below the UK average and Smith New Court, South Wales's brokers, forecasting the opposite.

The company also insists that the loss of supply customers such as BOC, Wiggins Teape and ASW is not the blow it appears. Mr Wynford Evans, South Wales's inquisitive chairman, has been busy all summer trying to reassure both opinion formers and the company's staff on this point.

The final supply of electricity to customers (as opposed to distribution along the wires, which remains a monopoly) is low margin business. South Wales says that it would have lost money if it had matched some of its competitors' bids for supply contracts

in its area.

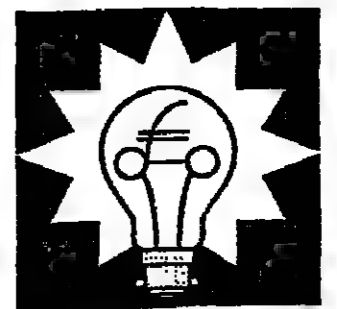
Yet the industrial bias in its regional base means that South Wales is vulnerable to an upsurge in large customers generating their own power. One estimate suggests that a quarter of all South Wales's industrial sales could fall to large combined heat and power schemes, severely reducing the flow of electricity along its local wires.

Industry observers are also divided about the quality of the management team around Mr Evans. Some see it as one of the weakest in the industry, while others point to the strengthening of the line-up in 1988 through the addition of Mr David Jones, who joined as managing director from South Western Electricity, and Mr David Myrting, the articulate finance director, formerly with British.

The South Wales team was elated earlier this month by its success in fighting off a challenge from National Power for the 15-year distribution contract for Cardiff Bay, one of the largest urban development programmes in Europe.

The contract will have a sizeable impact on South Wales's core distribution business, where most of its profits are made.

One area needing management attention is the retail network, which made an operating profit of just £200,000 on turnover of £28.8m last year. South Wales's shops have been among the poorer performers in the industry measured in terms of turnover on turnover and on average net assets. It will be surprising if the company does not rationalise its retailing operations, particularly in sparsely populated west Wales.



## PRIVATISATION

South Wales's capital spending - which jumped 34 per cent to £63m last year - is expected to plateau in 1992-93, reflecting its programme of replacing ageing assets.

Mr Myrting says gearing will worsen, but remain manageable. However, productivity increases - above the industry average and underpinned by an 8 per cent cut in staff numbers to 3,770 in five years - may also be on the verge of flattening out.

Potential investors can take comfort from the efforts of the Government to compensate for South Wales's obvious weaknesses. Jointly with Manweb, South Wales has been given the easiest price control formula: it will be allowed to raise distribution charges by 2.5 per cent more than inflation each year. Its initial debt of £25m is the lowest of any regional company.

Moreover, some analysts believe that the shares of the smaller companies like South Wales could be in hefty demand immediately after privatisation if institutions top up their portfolios of electricity stock. In the more medium term, many observers expect South Wales to be a candidate for takeover or merger. South Wales's size and structural vulnerability may not be all bad news for investors.

This is the third of 12 profiles of the regional electricity companies that the FT is publishing every Tuesday.

## Sims buys Corton Beach food arm from receivers

By Clare Pearson

SIMS FOOD, the USM-quoted meat group, is acquiring Norpak, a chilled and frozen food wholesale and distribution business, from the receivers of Corton Beach, the food, leisure and motor company.

The disposal comes less than two weeks after Mr Gordon Horsfield and other receivers from Price Waterhouse, the accountants, were appointed at Corton.

The value of the deal was not disclosed. But Price Waterhouse appears to have taken into

account speed as well as money in choosing Sims' offer. It said customers and suppliers had indicated they would not continue trading with Norpak unless an early sale was achieved.

With annual sales of about £50m, Norpak accounted for 35 per cent of Corton's total turnover.

Recently it had been in losses, partly through start-up costs at Nisachill. This, a dedicated business for the Nisa retail group, is excluded from the sale.

## Mowat passes final after plunging to £651,000

By Clare Pearson

MOWAT GROUP, the USM-quoted property and leisure company, is passing its final dividend after reporting that pre-tax profits plummeted from £6.8m to £661,000 in the year to end-June.

The pre-tax figure was struck after a £3.72m interest charge which Mr Brian Dunlop, chairman, told shareholders was "far too high for a com-

pany of your size", though he noted that none of the company's interest charges was capitalised.

Mr Dunlop admitted that at the interim stage when he had said he "viewed the second half... with optimism", he had wrongly anticipated an early fall in interest rates. The shares were unchanged yesterday at 8p.

Mowat's statement showed that turnover, year on year, had fallen £4.1m to £26.8m. The comparable interest charge was £3.6m. However, owing to a change in the company's year-end, other comparative figures were for the 15 months to end-June 1989.

On this basis, earnings per share were down from 7.19p to 0.66p. Mowat paid a 0.5p

interim dividend, compared with total dividends of 1.5p for the 15 months.

On trading, Mr Dunlop said Mowat, in common with many other companies, had found it extremely difficult to sell commercial properties even though these had been successfully let. In the past, commercial property had been a major contributor to profits.

Turnover from the holiday and leisure division was down, although Mr Dunlop said this reflected a shift to operating the sites on a commercial basis.

Mowat's £4.75m shares and cash acquisition of former Third Market leisure company Pennant Group in June was concluded too late to affect these figures.

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## TECHNOLOGY

## Facelift for maths syllabus

A NEW flexible mathematics syllabus designed to encourage students to continue their studies beyond the age of 16 has been approved by the Oxford and Cambridge Schools Examination Board.

The syllabus, the first of its type, was developed by the Mathematics in Education and Industry Schools Project. It encourages further maths studies by promising those who fail to pass A level exams at the end of two years that they will be eligible for some other sort of credential.

Roger Forke, director of MIEI, said: "One of the things that puts young people off maths studies is the prospect of studying for two years and having nothing to show for it." Forke noted that the number of maths A level exams passed has fallen by 25 per cent since 1984 - a development which has constricted the numbers entering higher education to study engineering and other technological subjects.

The syllabus is designed to counteract that trend as well as to make studies more relevant to industrial needs. Those who fail to complete the course through to A level, for instance, would still be eligible to pursue engineering courses at most polytechnics and computing or information technology at many universities.

The syllabus is unusual in that it adopts a "modular" approach to maths studies, allowing students to complete components of the curriculum over a two-year period culminating in an A level exam.

The syllabus allows those who find the material too difficult to drop their studies after, say, a year, and still receive a credential. For instance, those who complete three components will be eligible to sit A level exams in maths and other components can be linked to BTEC diplomas.

The Schools Examinations and Assessment Council has also approved the syllabus, saying it could be a model for studies in other disciplines attempting to increase staying-on rates. So far, about 30 schools have adopted the new curriculum, including the City of London School.

Norma Cohen

The Gulf crisis has sent tremors through industrialised countries which are heavily dependent on oil from the Middle East. Japan's economy in particular has come under scrutiny, from inside the country as much as from abroad. The result has been to help focus Japanese minds on the search for alternative sources of energy.

One development has provided particularly encouraging results. This is in combustion trials in Japan of an emulsified fuel oil, made using the sticky, black oil tar found in vast quantities in the Orinoco river basin of Venezuela.

As well as being an alternative source of energy, the new fuel, called Orimulsion, promises to have price advantages over crude oil. The Venezuelans are marketing Orimulsion as "liquid coal" and anchoring its price to the stable price of crude oil, by comparison, is rocketed since the Gulf crisis began.

The development is particularly significant because around 50 per cent of the world's recoverable oil reserves are in these super-heavy oils and bitumens, found principally in Venezuela and Canada. Venezuela's recoverable reserves alone are said to be twice the size of Australia's coal reserves - equivalent to nearly 11 per cent of the world's known coal deposits.

The problem is that the tar's high viscosity makes transport and processing difficult and has limited its commercial application.

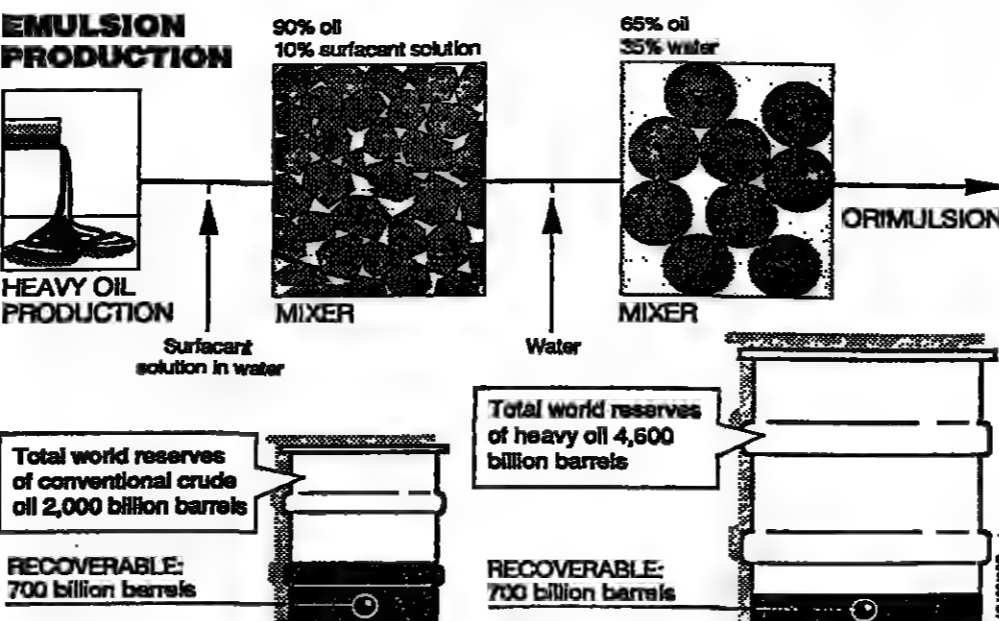
The initial breakthrough in broadening the use of the Venezuelan deposits, the world's largest, came with a patented two-stage mixing process invented jointly by British Petroleum (BP) and Petroleos de Venezuela (PDVSA), the Venezuelan oil company, in 1983. In the process water is mixed with the treacle-like tar to produce a more manageable oil-in-water emulsion.

Since then, combustion trials of Orimulsion have been sponsored by Ritor, the PDVSA subsidiary set up to handle Orimulsion, at several power stations in Japan, Europe and North America.

The recently concluded Japanese tests were conducted jointly by Chubu Electric Power and Mitsubishi Heavy Industries, which is marketing Orimulsion in the Far East. They sought to evaluate the combustibility and handling properties of the fuel. The tests were conducted using a pilot

Roy Garner and Della Bradshaw on how 'liquid coal' is being used as an alternative energy source

## The discovery of a slick operation



plant which burned 4,500 metric tonnes of Orimulsion over a 4,000-hour operating period.

Masayoshi Arakawa, manager of Mitsubishi's Orinoco Project department, says the results were so good that his company is now beginning to market Orimulsion to power companies and large industrial concerns such as steel and textile manufacturers.

Although the fuel contains approximately 35 per cent water it is easy to burn, because the 10 micron diameter of the oil droplets burns more efficiently than the 200 micron droplets produced when pure oil is forced through a nozzle in the traditional oil-burning power station. Also, the Orimulsion only needs to be heated to a maximum of 60 deg C before it is fed into the burner, compared with 180 deg C for oil. These two savings offset the heat lost through the evaporation of the water. Set alongside coal, Orimulsion has a 9 per cent higher heat content.

In addition to checking the fuel's combustibility, the Japanese researchers studied the effectiveness of the flue gas treatment, needed to remove the relatively large amounts of sulphur and nitrogen present in the fuel. And they assessed the anti-corrosive systems used to combat the high levels of vanadium and heavy metals inherent in Orimulsion.

The research team concluded that Orimulsion has the equivalent handling properties and combustibility of heavy oils. They also confirmed that magnesium added to the fuel helped reduce the high temperature corrosion of boiler tubes caused by the presence of vanadium. However they cautioned that in "super-critical" boilers (the high-temperature, high pressure boilers widely used in Japan) further measures would be necessary to reduce corrosion by sulphur. The levels of sulphur produced from burning Orimulsion could prove the one Achilles heel of the fuel. Mike Sharkey, technical manager of BP Ritor, which is marketing

Orimulsion in Europe, says the fuel has the same sulphur content as high sulphur-bearing mineral oils.

In Europe legislation has been introduced to force power generating companies to reduce significantly their sulphur emissions, and they are looking at ways of doing this. One process, which is proving particularly attractive in Japan, involves converting the sulphur into gypsum so that it can be made into wall board.

Whichever method companies choose to reduce sulphur is "purely a matter of economics", says Sharkey, who points out that the same sulphur reduction technology can be used for Orimulsion as is used for coal or oil.

Arakawa is also optimistic. "It is true an additional investment would be needed to re-equip the sulphur extraction facilities of conventional oil-burning power plants - but this would become a more attractive option with any rise in oil prices," he says. Whether to convert existing

oil-burning power stations to burn Orimulsion could be difficult costing decision, but Arakawa points to the changing environment that has arisen since the Gulf crisis.

He believes that Mitsubishi's main market is not the conversion case. "We are introducing this fuel as an alternative option to coal and aim for the development of new custom-built plants."

The Venezuelan classification of Orimulsion as a coal rather than oil substitute could help Arakawa. Japanese government regulations forbid oil utilities from constructing new oil-fired plants, so would be Japanese Orimulsion users need to obtain a non-oil classification for the fuel.

So far they have succeeded. For the Chubu tests, Japan's Ministry of Finance granted the Orimulsion shipments the designation of "natural asphalt". Future shipments are also expected to be granted this provisional classification.

Whatever the difficulties, commercial exploitation of Orimulsion is moving ahead in Japan. For a five-year period from mid-1991, the Kashima Kita power station, in central Japan, will use 0.25m tonnes of Orimulsion a year, and Mitsubishi Kasei's plant, in Misaki, plans to use 1.5m tonnes a year from late 1991.

There are equally ambitious plans in the UK, where PowerGen's Ince plant, in Cheshire, will burn 1m tonnes of Orimulsion a year from 1991, as part of a programme lasting several years, and its Ribblesdale station, in Kent, is also conducting trials. The move is part of PowerGen's strategy to reduce its dependence on coal by developing a portfolio of fuels, including natural gas and oil.

The Ince station has been converted to use Orimulsion from oil following initial trials two years ago of the bitumen-based liquid fuel. Conversion was relatively simple, says PowerGen. The only significant adaptation has been the installation of electrostatic precipitators, to help remove the tiny particles of grime produced when Orimulsion is burnt.

Unlike the Japanese marketers, PowerGen says that its tests have still to prove that Orimulsion could be economically and environmentally viable. Meanwhile National Power, the bigger of the UK's two power generating companies, is also examining the potential of Orimulsion. And in the US Florida Power and Light is planning to burn Orimulsion later this year.

## Open the coffers for UK start-ups

By Alan Cane

Without an immediate injection of new funds, GTG Software, a tiny start-up company based in the UK's "Silicon Valley", west of London, will be bankrupt by the end of the month.

It is a new player in the desk-top publishing business, a fast-growing industry based on the power of the personal computer and the laser printer, which has revolutionised the printing industry.

What makes GTG different from many other companies facing a date with the receiver is the faith which other established organisations have in the product it is now struggling to bring to market. They include St. James's investment organisation which has already committed itself to £500,000 in seed capital for GTG, together with International Business Machines and Aldus.

IBM, the world's largest computer company, has already concluded a joint marketing agreement with GTG and has made the company's "Data Base Publisher" package available through its dealer and distributor channels.

Aldus is the developer of "Page Maker", the best known desk-top publishing software for the integration of text and graphics. IBM and Aldus agree that Data Base Publisher fills an important market niche and should set the standard for database publishing programs.

Software which forms the link between electronic databases and desk-top publishing systems. The market for this kind of software will probably reach \$50m a year and GTG could take a large share, they think.

Yet despite these endorsements and prospects, GTG is in a parlous state and its directors stand to lose their houses, the collateral on their bank loans, if the company goes broke.

To be fair, with so much goodwill going for them, it is unlikely that GTG will be allowed to fail. A lifetime of one kind or another is almost certain to be found. It is already considering whether it can find more cash to help the company out.

GTG's management is going through a difficult time but its predicament holds powerful



TECHNICALLY SPEAKING

Lessons for entrepreneurs seeking backing for technology projects in the UK.

The most important one, as Graham Sedd, GTG managing director, openly admits, is not to ask for too little money at the outset. St. James's built in a safety margin but, even so, £500,000 greatly underestimated GTG's needs.

Sedd reckons he now needs another £2m in development and, more important, marketing funds to bring the latest version of Data Base Publisher to market.

One of the problems was that Sedd failed to predict a development in technology. His original version of Data Base Publisher worked with software called Gem. But Microsoft of the US then began marketing a new version of its Windows software which now seems likely to become the world standard.

So GTG is working desperately to produce a Windows-compatible version, but Sedd does not believe it will be ready before the second quarter of next year. Until then, there are tax bills to be paid and expenses to be met.

The mystery is why it should prove so difficult to secure comparatively modest funding for a product which seems certain to prove successful and give the UK a much-needed boost in the packaged software market. IBM and others are interested in a stake but their due diligence procedures grind exceedingly slowly.

Sedd has been investigating the possibility of US venture capital support and might be forced to follow that route. Is it any wonder that US companies dominate the European packaged software industry?



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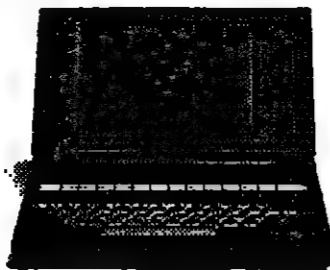
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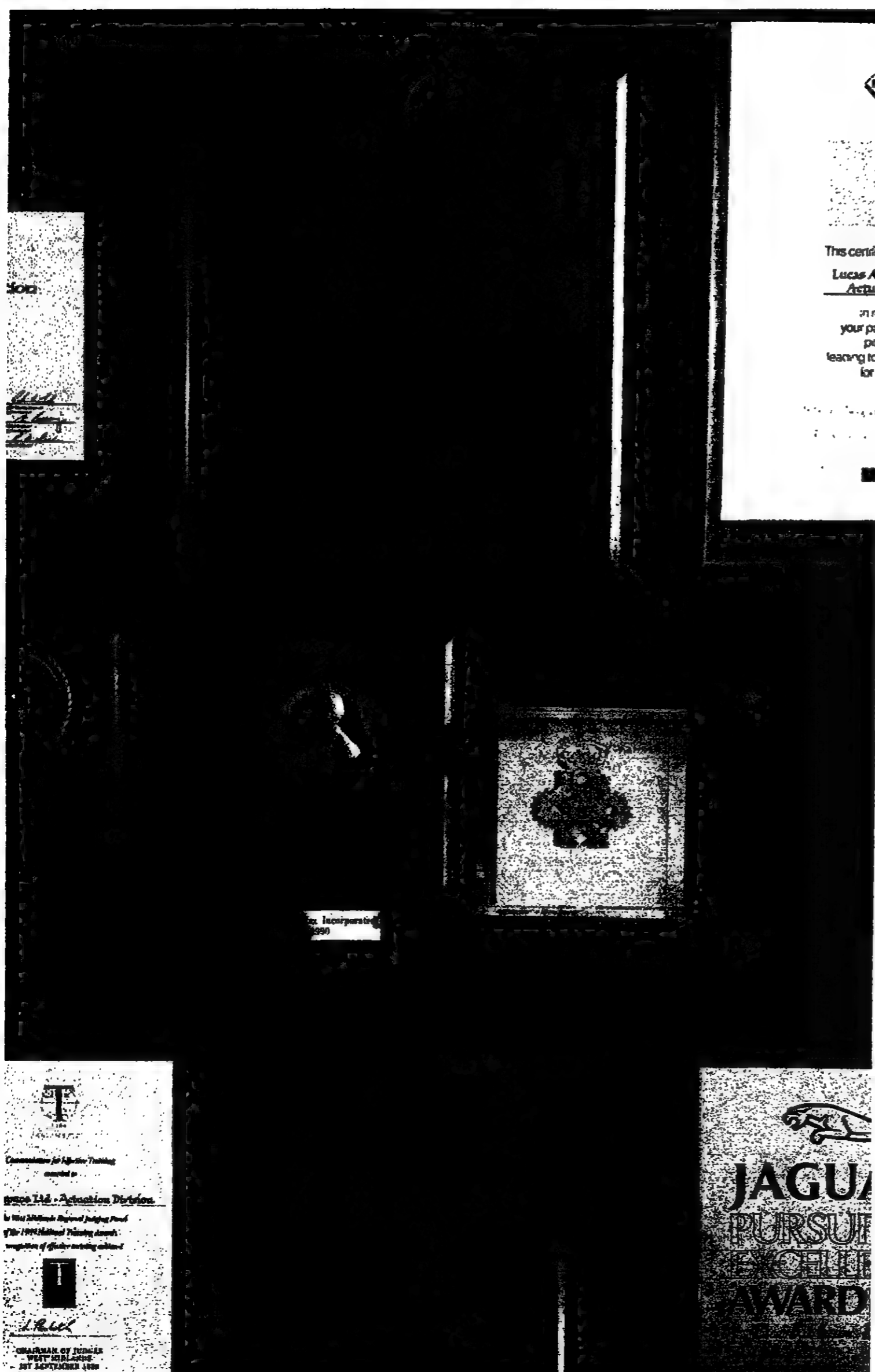
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SALES	£2,334m	UP 7%
PROFIT BEFORE TAX	£191.2m	UP 2%
EARNINGS PER SHARE (DILUTED)	20.2p	UNCHANGED
TOTAL DIVIDENDS PER SHARE	7.0p	UP 12%
RESEARCH, DEVELOPMENT AND CAPITAL INVESTMENT	£234.8m	UP 25%

#### EXTRACT FROM CHAIRMAN'S STATEMENT

"THE LUCAS FINANCIAL RESULTS ILLUSTRATE BENEFITS FROM THE IMPROVED BALANCE AND PERFORMANCE OF OUR INTERNATIONAL OPERATIONS - WHICH HAVE ENABLED THE COMPANY TO ADJUST TO MARKET AND OTHER CHANGES WHILE INCREASING INVESTMENT FOR SUSTAINABLE SUCCESS IN FUTURE. AS UNCERTAINTIES CONTINUE IN OUR MARKETS WE ARE CONCENTRATING ON EXPLOITING OPPORTUNITIES FOR ORGANIC GROWTH COUPLED WITH EVEN GREATER DETERMINATION TO REDUCE COSTS AND IMPROVE COMPETITIVENESS."

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## LONDON SHARE SERVICE

## BANKS, HP &amp; LEASING

1990	1989	Stock	Price	Div	Yield	1990	1989	Stock	Price	Div	Yield
115	115	ABN-AMRO Bank	115.00	1.00	0.87	115	115	ABN-AMRO Bank	115.00	1.00	0.87
116	116	Barclays Bank	116.00	1.00	0.86	116	116	Barclays Bank	116.00	1.00	0.86
117	117	Bank of Scotland	117.00	1.00	0.85	117	117	Bank of Scotland	117.00	1.00	0.85
118	118	Bank of Ireland	118.00	1.00	0.84	118	118	Bank of Ireland	118.00	1.00	0.84
119	119	Bank of London	119.00	1.00	0.83	119	119	Bank of London	119.00	1.00	0.83
120	120	Bank of Montreal	120.00	1.00	0.82	120	120	Bank of Montreal	120.00	1.00	0.82
121	121	Bank of Paris	121.00	1.00	0.81	121	121	Bank of Paris	121.00	1.00	0.81
122	122	Bank of Spain	122.00	1.00	0.80	122	122	Bank of Spain	122.00	1.00	0.80
123	123	Bank of Tokyo	123.00	1.00	0.79	123	123	Bank of Tokyo	123.00	1.00	0.79
124	124	Bank of West	124.00	1.00	0.78	124	124	Bank of West	124.00	1.00	0.78
125	125	Bank of America	125.00	1.00	0.77	125	125	Bank of America	125.00	1.00	0.77
126	126	Bank of New York	126.00	1.00	0.76	126	126	Bank of New York	126.00	1.00	0.76
127	127	Bank of South Africa	127.00	1.00	0.75	127	127	Bank of South Africa	127.00	1.00	0.75
128	128	Bank of China	128.00	1.00	0.74	128	128	Bank of China	128.00	1.00	0.74
129	129	Bank of India	129.00	1.00	0.73	129	129	Bank of India	129.00	1.00	0.73
130	130	Bank of Japan	130.00	1.00	0.72	130	130	Bank of Japan	130.00	1.00	0.72
131	131	Bank of Korea	131.00	1.00	0.71	131	131	Bank of Korea	131.00	1.00	0.71
132	132	Bank of Taiwan	132.00	1.00	0.70	132	132	Bank of Taiwan	132.00	1.00	0.70
133	133	Bank of Thailand	133.00	1.00	0.69	133	133	Bank of Thailand	133.00	1.00	0.69
134	134	Bank of Hong Kong	134.00	1.00	0.68	134	134	Bank of Hong Kong	134.00	1.00	0.68
135	135	Bank of Singapore	135.00	1.00	0.67	135	135	Bank of Singapore	135.00	1.00	0.67
136	136	Bank of Malaysia	136.00	1.00	0.66	136	136	Bank of Malaysia	136.00	1.00	0.66
137	137	Bank of Indonesia	137.00	1.00	0.65	137	137	Bank of Indonesia	137.00	1.00	0.65
138	138	Bank of Philippines	138.00	1.00	0.64	138	138	Bank of Philippines	138.00	1.00	0.64
139	139	Bank of Vietnam	139.00	1.00	0.63	139	139	Bank of Vietnam	139.00	1.00	0.63
140	140	Bank of Cambodia	140.00	1.00	0.62	140	140	Bank of Cambodia	140.00	1.00	0.62
141	141	Bank of Laos	141.00	1.00	0.61	141	141	Bank of Laos	141.00	1.00	0.61
142	142	Bank of Myanmar	142.00	1.00	0.60	142	142	Bank of Myanmar	142.00	1.00	0.60
143	143	Bank of Brunei	143.00	1.00	0.59	143	143	Bank of Brunei	143.00	1.00	0.59
144	144	Bank of Timor	144.00	1.00	0.58	144	144	Bank of Timor	144.00	1.00	0.58
145	145	Bank of East Timor	145.00	1.00	0.57	145	145	Bank of East Timor	145.00	1.00	0.57
146	146	Bank of West Timor	146.00	1.00	0.56	146	146	Bank of West Timor	146.00	1.00	0.56
147	147	Bank of East Timor	147.00	1.00	0.55	147	147	Bank of East Timor	147.00	1.00	0.55
148	148	Bank of West Timor	148.00	1.00	0.54	148	148	Bank of West Timor	148.00	1.00	0.54
149	149	Bank of East Timor	149.00	1.00	0.53	149	149	Bank of East Timor	149.00	1.00	0.53
150	150	Bank of West Timor	150.00	1.00	0.52	150	150	Bank of West Timor	150.00	1.00	0.52

## BUILDING, TIMBER, ROADS

1990	1989	Stock	Price	Div	Yield	1990	1989	Stock	Price	Div	Yield
151	151	ABN-AMRO Bank	151.00	1.00	0.66	151	151	ABN-AMRO Bank	151.00	1.00	0.66
152	152	Barclays Bank	152.00	1.00	0.65	152	152	Barclays Bank	152.00	1.00	0.65
153	153	Bank of Scotland	153.00	1.00	0.64	153	153	Bank of Scotland	153.00	1.00	0.64
154	154	Bank of Ireland	154.00	1.00	0.63	154	154	Bank of Ireland	154.00	1.00	0.63
155	155	Bank of London	155.00	1.00	0.62	155	155	Bank of London	155.00	1.00	0.62
156	156	Bank of Montreal	156.00	1.00	0.61	156	156	Bank of Montreal	156.00	1.00	0.61
157	157	Bank of Paris	157.00	1.00	0.60	157	157	Bank of Paris	157.00	1.00	0.60
158	158	Bank of Spain	158.00	1.00	0.59	158	158	Bank of Spain	158.00	1.00	0.59
159	159	Bank of Tokyo	159.00	1.00	0.58	159	159	Bank of Tokyo	159.00	1.00	0.58
160	160	Bank of West	160.00	1.00	0.57	160	160	Bank of West	160.00	1.00	0.57
161	161	Bank of America	161.00	1.00	0.56	161	161	Bank of America	161.00	1.00	0.56
162	162	Bank of New York	162.00	1.00	0.55	162	162	Bank of New York	162.00	1.00	0.55
163	163	Bank of South Africa	163.00	1.00	0.54	163	163	Bank of South Africa	163.00	1.00	0.54
164	164	Bank of China	164.00	1.00	0.53	164	164	Bank of China	164.00	1.00	0.53
165	165	Bank of India	165.00	1.00	0.52	165	165	Bank of India	165.00	1.00	0.52
166	166	Bank of Japan	166.00	1.00	0.51	166	166	Bank of Japan	166.00	1.00	0.51
167	167	Bank of Korea	167.00	1.00	0.50	167	167	Bank of Korea	167.00	1.00	0.50
168	168	Bank of Taiwan	168.00	1.00	0.49	168	168	Bank of Taiwan	168.00	1.00	0.49
169	169	Bank of Thailand	169.00	1.00	0.48	169	169	Bank of Thailand	169.00	1.00	0.48
170	170	Bank of Hong Kong	170.00	1.00	0.47	170	170	Bank of Hong Kong	170.00	1.00	0.47
171	171	Bank of Singapore	171.00	1.00	0.46	171	171	Bank of Singapore	171.00	1.00	0.46
172	172	Bank of Malaysia	172.00	1.00	0.45	172	172	Bank of Malaysia	172.00	1.00	0.45
173	173	Bank of Indonesia	173.00	1.00	0.44	173	173	Bank of Indonesia	173.00	1.00	0.44
174	174	Bank of Philippines	174.00	1.00	0.43	174	174	Bank of Philippines	174.00	1.00	0.43
175	175	Bank of Vietnam	175.00	1.00	0.42	175	175	Bank of Vietnam	175.00	1.00	0.42
176	176	Bank of Cambodia	176.00	1.00	0.41	176	176	Bank of Cambodia	176.00	1.00	0.41
177	177	Bank of Laos	177.00	1.00	0.40	177	177	Bank of Laos	177.00	1.00	0.40
178	178	Bank of Myanmar	178.00	1.00	0.39	178	178	Bank of Myanmar	178.00	1.00	0.39
179	179	Bank of Brunei	179.00	1.00	0.38	179	179	Bank of Brunei	179.00	1.00	0.38
180	180	Bank of Timor	180.00	1.00	0.37	180	180	Bank of Timor	180.00	1.00	0.37

## CHEMICALS, PLASTICS

1990	1989	Stock	Price	Div	Yield	1990	1989	Stock	Price	Div	Yield
181	181	ABN-AMRO Bank	181.00	1.00	0.36	181	181	ABN-AMRO Bank	181.00	1.00	0.36
182	182	Barclays Bank	182.00	1.00	0.35	182	182	Barclays Bank	182.00	1.00	0.35
183	183	Bank of Scotland	183.00	1.00	0.34	183	183	Bank of Scotland	183.00	1.00	0.34
184	184	Bank of Ireland	184.00	1.00	0.33	184	184	Bank of Ireland	184.00	1.00	0.33
185	185	Bank of London	185.00	1.00	0.32	185	185	Bank of London	185.00	1.00	0.32
186	186	Bank of Montreal	186.00	1.00	0.31	186	186	Bank of Montreal	186.00	1.00	0.31
187	187	Bank of Paris	187.00	1.00	0.30	187	187	Bank of Paris	187.00	1.00	0.30
188	188	Bank of Spain	188.00	1.00	0.29	188	188	Bank of Spain	188.00	1.00	0.29
189	189	Bank of Tokyo	189.00	1.00	0.28	189	189	Bank of Tokyo	189.00	1.00	0.28
190	190	Bank of West	190.00	1.00	0.27	190	190	Bank of West	190.00	1.00	0.27
191	191	Bank of America	191.00	1.00	0.26	191	191	Bank of America	191.00	1.00	0.26
192	192	Bank of New York	192.00	1.00	0.25	192	192	Bank of New York	192.00	1.00	0.25
193	193	Bank of South Africa	193.00	1.00	0.24	193	193	Bank of South Africa	193.00	1.00	0.24
194	194	Bank of China	194.00	1.00	0.23	194	194	Bank of China	194.00	1.00	0.23
195	195	Bank of India	195.00	1.00	0.22	195	195	Bank of India	195.00	1.00	0.22
196	196	Bank of Japan	196.00	1.00	0.21	196	196	Bank of Japan	196.00	1.00	0.21
197	197	Bank of Korea	197.00	1.00	0.20	197	197	Bank of Korea	197.00	1.00	0.20
198	198	Bank of Taiwan	198.00	1.00	0.19	198	198	Bank of Taiwan	198.00	1.00	0.19
199	199	Bank of Thailand	199.00	1.00	0.18	199	199	Bank of Thailand	199.00	1.00	0.18
200	200	Bank of Hong Kong	200.00	1.00	0.17	200	200	Bank of Hong Kong	200.00	1.00	0.17
201	201	Bank of Singapore	201.00	1.00	0.16	201	201	Bank of Singapore	201.00	1.00	0.16
202	202	Bank of Malaysia	202.00	1.00	0.15	202	202	Bank of Malaysia	202.00	1.00	0.15
203	203	Bank of Indonesia	203.00	1.00	0.14	203	203	Bank of Indonesia	203.00	1.00	0.14
204	204	Bank of Philippines	204.00	1.00	0.13	204	204	Bank of Philippines	204.00	1.00	0.13
205	205	Bank of Vietnam	205.00	1.00	0.12	205	205	Bank of Vietnam	205.00	1.00	0.12
206	206	Bank of Cambodia	206.00	1.00	0.11	206	206	Bank of Cambodia	206.00	1.00	0.11
207	207	Bank of Laos	207.00	1.00	0.10	207	207	Bank of Laos	207.00	1.00	0.10
208	208	Bank of Myanmar	208.00	1.00	0.09	208	208	Bank of Myanmar	208.00	1.00	0.09
209	209	Bank of Brunei	209.00	1.00	0.08	209	209	Bank of Brunei	209.00	1.00	0.08
210	210	Bank of Timor	210.00	1.00	0.07	210	210	Bank of Timor	210.00	1.00	0.07

## DRAPERY AND STORES

211	111	ABN-AMRO Bank	121	1.0	0.06	211	111	ABN-AMRO Bank	121	1.0	0.06
212	112	Barclays Bank	122	1.0	0.05	212	112	Barclays Bank	122	1.0	0.05
213	113	Bank of Scotland	123	1.0	0.04	213	113	Bank of Scotland	123	1.0	0.04
214	114	Bank of Ireland	124	1.0	0.03	214	114	Bank of Ireland	124	1.0	0.03
215	115	Bank of London	125	1.0	0.02	215	115	Bank of London	125	1.0	0.02
216	116	Bank of Montreal	126	1.0	0.01	216	116	Bank of Montreal	126	1.0	0.01
217	117	Bank of Paris	127	1.0	0.01	217	117	Bank of Paris	127	1.0	0.01
218	118	Bank of Spain	128	1.0	0.01	218	118	Bank of Spain	128	1.0	0.01
219	119	Bank of Tokyo	129	1.0	0.01	219	119	Bank of Tokyo	129	1.0	0.01
220	120	Bank of West Indies	130	1.0	0.01	220	120	Bank of West Indies	130	1.0	0.01
221	121	Bank of Yugoslavia	131	1.0	0.01	221	121	Bank of Yugoslavia	131	1.0	0.01
222	122	Bank of Zaire	132	1.0	0.01	222	122	Bank of Zaire	132	1.0	0.01
223	123	Bank of Zimbabwe	133	1.0	0.01	223	123	Bank of Zimbabwe	133	1.0	0.01
224	124	Bank of Congo	134	1.0	0.01	224	124	Bank of Congo	134	1.0	0.01
225	125	Bank of Gabon	135	1.0	0.01	225	125	Bank of Gabon	135	1.0	0.01
226	126	Bank of Guinea	136	1.0	0.01	226	126	Bank of Guinea	136	1.0	0.01
227	127	Bank of Ivory Coast	137	1.0	0.01	227	127	Bank of Ivory Coast	137	1.0	0.01
228	128	Bank of Liberia	138	1.0	0.01	228	128	Bank of Liberia	138	1.0	0.01
229	129	Bank of Sierra Leone	139	1.0	0.01	229	129	Bank of Sierra Leone	139	1.0	0.01
230	130	Bank of Sudan	140	1.0	0.01	230	130	Bank of Sudan	140	1.0	0.01
231	131	Bank of Tanzania	141	1.0	0.01	231	131	Bank of Tanzania	141	1.0	0.01
232	132	Bank of Uganda	142	1.0	0.01	232	132	Bank of Uganda	142	1.0	0.01
233	133	Bank of Zambia	143	1.0	0.01	233	133	Bank of Zambia	143	1.0	0.01
234	134	Bank of Botswana	144	1.0	0.01	234	134	Bank of Botswana	144	1.0	0.01
235	135	Bank of Lesotho	145	1.0	0.01	235	135	Bank of Lesotho	145	1.0	0.01
236	136	Bank of Malawi	146	1.0	0.01	236	136	Bank of Malawi	146	1.0	0.01
237	137	Bank of Mozambique	147	1.0	0.01	237	137	Bank of Mozambique	147	1.0	0.01
238	138	Bank of Namibia	148	1.0	0.01	238	138	Bank of Namibia	148	1.0	0.01
239	139	Bank of Nigeria	149	1.0	0.01	239	139	Bank of Nigeria	149	1.0	0.01
240	140	Bank of Rwanda	150	1.0	0.01	240	140	Bank of Rwanda	150	1.0	0.01
241	141	Bank of Senegal	151	1.0	0.01	241	141	Bank of Senegal	151	1.0	0.01
242	142	Bank of Sierra Leone	152	1.0	0.01	242	142	Bank of Sierra Leone	152	1.0	0.01
243	143	Bank of Somalia	153	1.0	0.01	243	143	Bank of Somalia	153	1.0	0.01
244	144	Bank of South Africa	154	1.0	0.01	244	144	Bank of South Africa	154	1.0	0.01
245	145	Bank of Swaziland	155	1.0	0.01	245	145	Bank of Swaziland	155	1.0	0.01
246	146	Bank of Togo	156	1.0	0.01	246	146	Bank of Togo	156	1.0	0.01
247	147	Bank of Tunisia	157	1.0	0.01	247	147	Bank of Tunisia	157	1.0	0.01
248	148	Bank of Turkey	158	1.0	0.01	248	148	Bank of Turkey	158	1.0	0.01
249	149	Bank of Uganda	159	1.0	0.01	249	149	Bank of Uganda	159	1.0	0.01
250	150	Bank of Zambia	160	1.0	0.01	250	150	Bank of Zambia	160	1.0	0.01
251	151	Bank of Zimbabwe	161	1.0	0.01	251	151	Bank of Zimbabwe	161	1.0	0.01
252	152	Bank of Botswana	162	1.0	0.01	252	152	Bank of Botswana	162	1.0	0.01
253	153	Bank of Lesotho	163	1.0	0.01	253	153	Bank of Lesotho	163	1.0	0.01
254	154	Bank of Malawi	164	1.0	0.01	254	154	Bank of Malawi	164	1.0	0.01
255	155	Bank of Mozambique	165	1.0	0.01	255	155	Bank of Mozambique	165	1.0	0.01
256	156	Bank of Namibia	166	1.0	0.01	256	156	Bank of Namibia	166	1.0	0.01
257	157	Bank of Nigeria	167	1.0	0.01	257	157	Bank of Nigeria	167	1.0	0.01
258	158	Bank of Rwanda	168	1.0	0.01	258	158	Bank of Rwanda	168	1.0	0.01
259	159	Bank of Senegal	169	1.0	0.01	259	159	Bank of Senegal	169	1.0	0.01
260	160	Bank of Sierra Leone	170	1.0	0.01	260	160	Bank of Sierra Leone	170	1.0	0.01
261	161	Bank of Somalia	171	1.0	0.01	261	161	Bank of Somalia	171	1.0	0.01
262	162	Bank of South Africa	172	1.0	0.01	262	162	Bank of South Africa	172	1.0	0.01
263	163	Bank of Swaziland	173	1.0	0.01	263	163	Bank of Swaziland	173	1.0	0.01
264	164	Bank of Togo	174	1.0	0.01	264	164	Bank of Togo	174	1.0	0.01
265	165	Bank of Tunisia	175	1.0	0.01	265	165	Bank of Tunisia	175	1.0	0.01
266	166	Bank of Turkey	176	1.0	0.01	266	166	Bank of Turkey	176	1.0	0.01
267	167	Bank of Uganda	177	1.0	0.01	267	167	Bank of Uganda	177	1.0	0.01
268	168	Bank of Zambia	178	1.0	0.01	268	168	Bank of Zambia	178	1.0	0.01
269	169	Bank of Zimbabwe	179	1.0	0.01	269	169	Bank of Zimbabwe	179	1.0	0.01
270	170	Bank of Botswana	180	1.0	0.01	270	170	Bank of Botswana	180	1.0	0.01
271	171	Bank of Lesotho	181	1.0	0.01	271	171	Bank of Lesotho	181	1.0	0.01
272	172	Bank of Malawi	182	1.0	0.01	272	172	Bank of Malawi	182	1.0	0.01
273	173	Bank of Mozambique	183	1.0	0.01	273	173	Bank of Mozambique	183	1.0	0.01
274	174	Bank of Namibia	184	1.0	0.01	274	174	Bank of Namibia	184	1.0	0.01
275	175	Bank of Nigeria	185	1.0	0.01	275	175	Bank of Nigeria	185	1.0	0.01
276	176	Bank of Rwanda	186	1.0	0.01	276	176	Bank of Rwanda	186	1.0	0.01
277	177	Bank of Senegal	187	1.0	0.01	277	177	Bank of Senegal	187	1.0	0.01
278	178	Bank of Sierra Leone	188	1.0	0.01	278	178	Bank of Sierra Leone	188	1.0	0.01
279	179	Bank of Somalia	189	1.0	0.01	279	179	Bank of Somalia	189	1.0	0.01
280	180	Bank of South Africa	190	1.0	0.01	280	180	Bank of South Africa	190	1.0	0.01
281	181	Bank of Swaziland	191	1.0	0.01	281	181	Bank of Swaziland	191	1.0	0.01
282	182	Bank of Togo	192	1.0	0.01	282	182	Bank of Togo	192	1.0	0.01
283	183	Bank of Tunisia	193	1.0	0.01	283	183	Bank of Tunisia	193	1.0	0.01
284	184	Bank of Turkey	194	1.0	0.01	284	184	Bank of Turkey	194	1.0	0.01
285	185	Bank of Uganda	195	1.0	0.01	285	185	Bank of Uganda	195	1.0	0.01
286	186	Bank of Zambia	196	1.0	0.01	286	186	Bank of Zambia	196	1.0	0.01
287	187	Bank of Zimbabwe	197	1.0	0.01	287	187	Bank of Zimbabwe	197	1.0	0.01
288	188	Bank of Botswana	198	1.0	0.01	288	188	Bank of Botswana	198	1.0	0.01
289	189	Bank of Lesotho	199	1.0	0.01	289	189	Bank of Lesotho	199	1.0	0.01
290	190	Bank of Malawi	200	1.0	0.01	290	190	Bank of Malawi	200	1.0	0.01
291	191	Bank of Mozambique	201	1.0	0.01	291	191	Bank of Mozambique	201	1.0	0.01
292	192	Bank of Namibia	202	1.0	0.01	292	192	Bank of Namibia	202	1.0	0.01
293	193	Bank of Nigeria	203	1.0	0.01	293	193	Bank of Nigeria	203	1.0	0.01
294	194	Bank of Rwanda	204	1.0	0.01	294	194	Bank of Rwanda	204	1.0	0.01
295	195	Bank of Senegal	205	1.0	0.01	295	195	Bank of Senegal	205	1.0	0.01
296	196	Bank of Sierra Leone	206	1.0	0.01	296	196	Bank of Sierra Leone	206	1.0	0.01
297	197	Bank of Somalia	207	1.0	0.01	297	197	Bank of Somalia	207	1.0	0.01
298	198	Bank of South Africa	208	1.0	0.01	298	198	Bank of South Africa	208	1.0	0.01
299	199	Bank of Swaziland	209	1.0	0.01	299	199	Bank of Swaziland	209	1.0	0.01
300	200	Bank of Togo	210	1.0	0.01	300	200	Bank of Togo	210	1.0	0.01
301	201	Bank of Tunisia	211	1.0	0.01	301	201	Bank of Tunisia	211	1.0	0.01
302	202	Bank of Turkey	212	1.0	0.01	302	202	Bank of Turkey	212	1.0	0.01
303	203	Bank of Uganda	213	1.0	0.01	303	203	Bank of Uganda	213	1.0	0.01
304	204	Bank of Zambia	214	1.0	0.01	304	204	Bank of Zambia	214	1.0	0.01
305	205	Bank of Zimbabwe	215	1.0	0.01	305	205	Bank of Zimbabwe	215	1.0	0.01
306	206	Bank of Botswana	216	1.0	0.01	306	206	Bank of Botswana	216	1.0	0.01
307	207	Bank of Lesotho	217	1.0	0.01	307	207	Bank of Lesotho	217	1.0	0.01
308	208	Bank of Malawi	218	1.0	0.01	308	208	Bank of Malawi	218	1.0	0.01
309	209	Bank of Mozambique	219	1.0	0.01	309	209	Bank of Mozambique	219	1.0	0.01
310	210	Bank of Namibia	220	1.0	0.01	310	210	Bank of Namibia	220	1.0	0.01
311	211	Bank of Nigeria	221	1.0	0.01	311	211	Bank of Nigeria	221	1.0	0.01
312	212	Bank of Rwanda	222	1.0	0.01	312	212	Bank of Rwanda	222	1.0	0.01
313	213	Bank of Senegal	223	1.0	0.01	313	213	Bank of Senegal	223	1.0	0.01
314	214	Bank of Sierra Leone	224	1.0	0.01	314	214	Bank of Sierra Leone	224	1.0	0.01
315	215	Bank of Somalia	225	1.0	0.01	315	215	Bank of Somalia	225	1.0	0.01
316	216	Bank of South Africa	226	1.0	0.01	316	216	Bank of South Africa	226	1.0	0.01
317	217	Bank of Swaziland	227	1.0	0.01	317	217	Bank of Swaziland	227	1.0	0.01
318	218	Bank of Togo	228	1.0	0.01	318	218	Bank of Togo	228	1.0	0.01
319	219	Bank of Tunisia	229	1.0	0.01	319	219	Bank of Tunisia	229	1.0	0.01
320	220	Bank of Turkey	230	1.0	0.01	320	220	Bank of Turkey	230	1.0	0.01
321	221	Bank of Uganda	231	1.0	0.01	321	221	Bank of Uganda	231	1.0	0.01
322	222	Bank of Zambia	232	1.0	0.01	322	222	Bank of Zambia	232	1.0	0.01
323	223	Bank of Zimbabwe	233	1.0	0.01	323	223	Bank of Zimbabwe	233	1.0	0.01
324	224	Bank of Botswana	234	1.0	0.01	324	224	Bank of Botswana	234	1.0	0.01
325	225	Bank of Lesotho	235	1.0	0.01	325	225	Bank of Lesotho	235	1.0	0.01
326	226	Bank of Malawi	236	1.0	0.01	326	226	Bank of Malawi	236	1.0	0.01
327	227	Bank of Mozambique	237	1.0	0.01	327	227	Bank of Mozambique	237	1.0	0.01
328	228	Bank of Namibia	238	1.0	0.01	328	228	Bank of Namibia	238	1.0	0.01
329	229	Bank of Nigeria	239	1.0	0.01	329	229	Bank of Nigeria	239	1.0	0.01
330	230	Bank of Rwanda	240	1.0	0.01	330	230	Bank of Rwanda	240	1.0	0

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## MOTORS, AIRCRAFT TRADES - Cont'd

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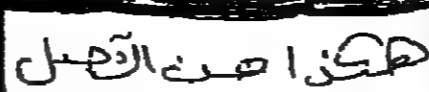
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FINANCIAL TIMES TUESDAY OCTOBER 23 1997

Continued on Page 45



**NASDAQ NATIONAL MARKET**

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## Lower crude prices spark rebound in Japan

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## CANADA

Tuesday, October 23, 1990

■ Canada's economy: there is widespread agreement that 1991 will be a tough year: see page 3.

■ Despite problems, the banking system and financial institutions show cautious optimism: see page 4.

## SECTION IV



**Signs of intolerance and unrest reflect a profound identity and adjustment crisis in Canada. The**

**prospects of the country that has long-prided itself on unrivalled stability have now become disturbingly uncertain, as**

**Bernard Simon reports here.**

## An identity crisis unfolds

PICK A word that best describes Canada. Your choice will probably include one of the following: dull, tranquil, boring, contented, tolerant, and of course, cold.

The only one of those words that aptly describes the world's second-biggest country and seventh-biggest economy in the autumn of 1990 is cold.

Far from being contented, Canadians are in a sour, disgruntled mood. Their normally tranquil political scene has become unusually volatile.

Most unsettling, the prospects of a country that has long prided itself on unrivalled stability, have become disturbingly uncertain.

Canadians themselves have rubbed their eyes in disbelief at some of the images coming out of their country lately. Could it be in peaceful, law-abiding Canada, that hundreds of soldiers and armoured vehicles would for more than two months face masked, heavily-armed Mohawk Indians, across barbed wire and barricades?

The image of Canadians as a polite, even-tempered people hardly matches the night of elderly members of the Senate in Ottawa trying to stop an unpopular tax measure by blowing whistles, banging

desk-tops and inviting TV cameramen onto the floor of the upper chamber of parliament.

A distinctly un-Canadian intolerance has abounded in the past year, whether in the form of Anglophone city councils around Ontario refusing to provide municipal services in French, or Quebecers protesting against growing numbers of non-French speaking immigrants.

Unhappy for Canada, these are not isolated incidents. Rather, they are the symptoms of a profound identity and adjustment crisis in which Canadians are having to make some tough decisions about their own future and their relations with the outside world. The issues, both political and economic, could hardly be more fundamental to the future direction of the country. As a senior cabinet minister in Ottawa puts it, Canadians need to examine "whether we want a country in the first place, and whether there are values that we share."

The Economic Council of Canada, a government-funded think-tank, said in its latest annual report published last month, that "we must in effect manage two complex transitions at the same time. Inter-

nally, we must rethink our economic priorities and our institutions; externally, we must continue to adapt to the new global realities."

The political landscape has gained a rougher edge from the harsh, three-year long debate over the Meech Lake accord, the package of constitutional reforms conceived by prime minister Brian Mulroney to make Quebec a full member of the Canadian family by having it sign the 1982 constitution.

Bold as Mr Mulroney's initiative was, it not only failed to bring Quebec into the constitution, but also brought to the surface stresses and strains in the ever-fragile Canadian fabric.

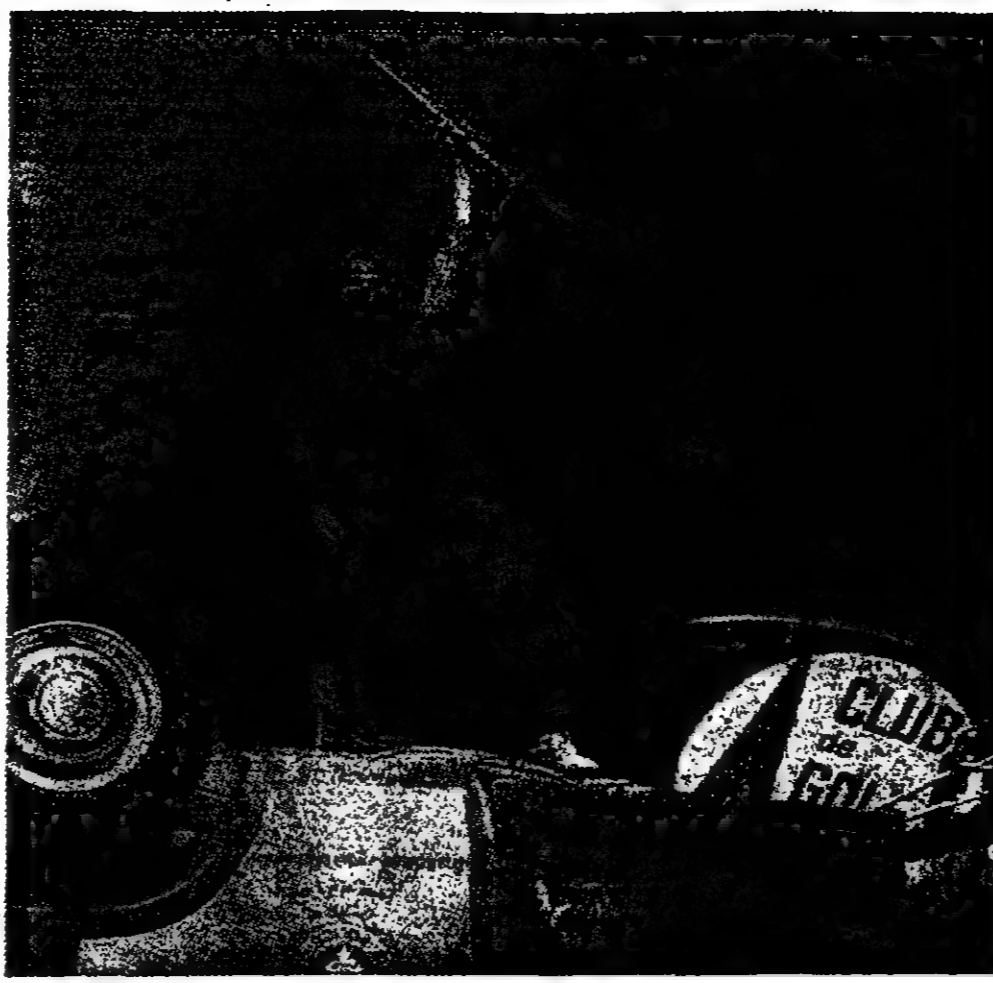
By the time the accord sank in a swamp of ill-will last June, it had ignited a new wave of nationalism in Quebec, stirred up considerable resentment against Quebec in English Canada, helped nurture a new sense of alienation in the west, and raised the stakes in native Canadians' demands for greater autonomy and settlement of their land claims.

Meech Lake's legacy is an unaccustomed volatility and polarisation in Canadian politics. Two new regional groupings, the ultra-nationalistic Bloc Quebecois in Quebec and the Reform Party in western Canada, have attracted huge public support at the expense of the two largest mainstream parties, the ruling Progressive Conservatives and the Liberals.

Both the BC and the Reform Party have won handsome majorities in by-elections. Voters' discontent was also evident in the stunning victory of the left-wing New Democratic Party in provincial elections in Ontario in early September.

It is widely assumed that almost 40 per cent of voters in Canada's richest region plumped for the NDP, not because of any special fondness for the greater degree of government intervention which the party has promised, but as a protest against being taken for granted by the other two parties.

The disgruntlement extends to the economic sphere. Besides the discomfort of entering what is expected to be a longish (if relatively shallow)



A warrior-like Indian stands triumphant on an overturned police vehicle, blocking a highway in Quebec after police action failed to remove Mohawk barriers.

cyclical recession; the economy faces some challenging and painful structural adjustments.

The US-Canada free trade agreement, which came into force at the beginning of 1989, is forcing Canadian business and labour into more direct competition with American companies which, in many cases, are more efficient and more productive.

For instance, the high-cost food processing industry, hitherto based on a supply-management system which guarantees high prices to Canadian farmers, is increasingly having to compete against cheaper US imports.

Meanwhile, the ability of governments to put a crutch under weak industries or

regions, and indeed to maintain the standards of public service to which Canadians have been accustomed, is under severe strain.

The Economic Council of Canada notes that "Canadians are going to have to scale down their expectations regarding the capacity of governments to solve their problems."

National governments are losing some of their traditional levers of power, and the federal government in particular is experiencing serious financial difficulties.

Although the Mulroney government has kept a lid on federal spending, the budget deficit has remained stubbornly high at about C\$30bn a year.

The key reason is the upward march of interest rates since 1987. As a result of the former Liberal government's profligacy, interest payments now make up more than 30 per cent of federal government spending, by far the largest single item.

The fiscal spotlight is gradually shifting to lower levels of government. Provinces and municipalities make up almost two-thirds of public outlays and, in contrast to the federal government, have pumped up their spending enormously in recent years.

For all the forces tearing at the national fabric, most Canadians are by no means ready to acquiesce in the fragmentation of their country, whether in

the form of Quebec taking its own seat at the United Nations, or of some of the eastern or western provinces joining the US.

A poll taken immediately after the collapse of Meech Lake showed that four in every five Canadians do not want their country to be part of their giant neighbour to the south.

While Quebec nationalists would like a greater measure of autonomy for their province, most would be happy for Ottawa to continue running their post office, seeing to their defence needs, and even printing their currency.

Indeed, the Mulroney government is hoping that it can win re-election by building on the theme of stable, united and confident Canada.

Issues that transcend regional boundaries, such as the environment and day-care, will probably figure prominently in the run-up to the next election, expected to be called in 1992.

The government will soon launch an ambitious effort at "consensus-building dialogue", which will include hundreds of meetings in communities across the country to give Canadians a more focused forum than radio hot-line shows to vent their hopes and frustrations.

A plethora of more formal groups is also being set up on both a national and regional level to chart the future course of the country.

The federal government is planning a commission on constitutional reform in an effort to avoid a repetition of the messy Meech Lake process.

In Quebec, a group of business, labour and community leaders is discussing the francophone province's options for the future, in tandem with a study by the ruling Liberal party. The province's premier has instructed these groups to consider all alternatives, bar two: joining the US and retaining the status quo.

Across the country, there already appears to be a consensus about one thing: if Canada is to survive with the attributes which have made it the envy of so many other nations, some significant changes are inevitable in the way this vast, diverse country is run.

## IN THIS SURVEY



■ Canada's Prime Minister Brian Mulroney: although his government has kept the lid on federal spending, the budget deficit has remained stubbornly high at about C\$30bn a year.

■ The political scene: likely to become a much livelier spectator-sport.

■ Political profile: Canada's Bob Rae presents a dual image.

■ Canada's key facts and economic indicators. PAGE 2

■ Economic recovery looks inevitable.

■ Foreign investors take their time. PAGE 3

■ Financial services: preparing for the storm.

■ The Goods and Services Tax: a highly controversial initiative.

■ Reaction to the Free Trade Agreement: signs of increasing public hostility. PAGE 4

■ Western Canada: strong calls for reform.

■ Shadow cast over the Atlantic Provinces.

■ Quebec: demand for more autonomy.

■ Advice for winter visitors. Details of related FT surveys. PAGE 5

■ Editorial production by Michael Wiltshire.

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## CANADA 2

## POLITICS

## Likely to become a much livelier spectator-sport

THE FIRST tangible evidence of a new fluidity in Canadian politics came not from Quebec, as one might have expected, but from the western province of Alberta.

Just four months after the Conservatives made a clean sweep of Alberta in the November 1988 election, a candidate from the fiercely regional Reform Party won a stunning 4,200-vote majority in a by-election in a rural constituency.

The unsettled mood which produced the upset in Alberta has subsequently brought a succession of upsets and surprises across the country, to the point where few Canadians would venture a bet on the outcome of the next federal election, which will probably be called some time in 1992, or the handful of provincial polls likely to be held before then.

If there is a constant in the shifting political landscape, it is that the two biggest parties, the Conservatives and Liberals, have been put on the defensive by a variety of groups representing more clearly defined ideological and regional interests.

In federal politics, the debate over Quebec's future role in Canada has spawned the nationalist Bloc Québécois, a group of nine MPs who defected from the Tories and the Liberals. The party proved its grassroots support in August by winning a huge majority in a by-election in an east-end Montreal constituency once regarded as a Liberal stronghold.

The Reform Party has continued to flourish, mainly in British Columbia and Alberta, on a platform which emphasises the interests of western Canada, including greater representation in the Senate and an end to forced bilingualism.

On the provincial front, the big winner recently has been the New Democratic Party, the left-leaning group which sprang in the early 1960s from the co-operative movement on the prairies, and now also leans heavily on trade unions and university campuses for support. It scored one of the great upsets of Canadian political history in September with its win in provincial elections in Ontario, where the incumbent Liberals were so confident of victory that they called an election with two years of their mandate still to go. The NDP also put in a strong showing in later elections in Manitoba.

Underlining the electorate's heightened volatility is the unusually high support for a variety of single-issue, fringe parties. These groups managed to gain 7 per cent of the vote cast in Ontario, and have shown similar standings in

PROVINCIAL GOVERNMENTS	
List of provinces, showing governing party and year of the last election	
Newfoundland	Liberal, 1988
Nova Scotia	Conservative, 1988
Prince Edward Island	Liberal, 1988
New Brunswick	Liberal, 1987
Quebec	Liberal, 1988
Ontario	New Democrat, 1990
Manitoba	Conservative, 1988
Saskatchewan	Conservative, 1988
Alberta	Conservative, 1988
British Columbia	Social Credit, 1988

## HOUSE OF COMMONS

State of the parties, October, 1990, showing parties and number of seats	
Progressive	139
Liberal	75
New Democrat	44
Bloc Québécois	9
Reform	1
Independent	2
Vacancies	2
TOTAL	295

## national opinion polls.

Canadians are now debating the significance of this fragmentation of political allegiances. Is it merely a temporary protest against governing parties of the kind to be expected when voters are grumpy about everything from the economy to the Prime Minister's style? Or is it the start of a fundamental shift in the political system where regional or special-interest parties will in future hold the balance of power between Liberals and Conservatives?

One compelling argument in favour of the latter interpretation is that the Tories and the Liberals are worried in about equal measure. Recent opinion polls give the Mulroney Government an approval rating of only 15-20 per cent of decided voters, the lowest for a ruling party in almost half a century.

The Tories are especially

## concerned about the strength

of the Reform Party in the west, where hatred of the Trudeau Liberals in 1984 and solid backing for the free trade deal four years later have guaranteed solid support for Mr Mulroney in the past two elections.

The Liberals' biggest problem is in Quebec, whose relatively homogeneous population and large bloc of MPs make it a key to victory in federal elections. With the defections to

the Bloc Québécois, the Liberal caucus in the House of Commons now has only a handful of French-speaking members from Quebec. One sign of the Liberals' shaky standing in Quebec is that the new leader, Mr Jean Chrétien, although himself a Québécois, has decided to run for parliament in a safe seat in New Brunswick.

Provincial Liberals' defeat in Ontario and their poor showing in Manitoba are further pointers to an uphill battle for the federal party ahead of the next election. The fortunes of the two mainline parties are now heavily dependent on the strength of the NDP, the Bloc Québécois and the Reform Party. A surge in support for the New Democrats on the federal level would take more votes from the Liberals than the Tories.

The key to the NDP's credibility appears to be the performance of the new Government in Ontario headed by Mr Bob Rae. With an intellectual leader in Ottawa in the form of Ms Audrey McLaughlin, New Democrats are hoping Mr Rae will show the country that the party should be taken more seriously at the federal level too. They are crossing fingers that the Bloc Québécois will in future concentrate on provincial politics in Quebec. The BQ may figure that it



## KEY FACTS AND INDICATORS

Area	9,220,970 sq km
Population	28.25 million, (1989 estimate)
Head of State	Queen Elizabeth II
Currency	Canadian dollar (C\$)
Average exchange rate	1988 US\$1 = C\$1.23 1990 US\$1 = C\$1.18

## ECONOMIC INDICATORS

	1988	1989
Total GDP (US\$bn)	490.3	550.3
Real GDP growth (%)	4.4	3.0
GDP per capita (US\$)	18894	20885
Components of GDP (%)		
Private consumption	58.0	58.5
Gross fixed investment	24.6	22.7
Government consumption	17.7	19.0
Exports	34.0	27.6
Imports	-32.5	-28.8
Current account balance (US\$bn)	-8.8	-18.6
Exports (US\$bn)	114.8	120.9
Imports (US\$bn)	105.9	115.9
Trade balance (US\$bn)	8.9	5.0
16 main trading partners (% of total value)		
Exports		
United States	70.5	73.7
Japan	8.0	8.4
Imports		
United States	64.7	65.4
Japan	5.8	7.0
Public external debt (US\$bn)	42.5	47.0
Consumer price (% change per year)	4.0	5.0
Industrial wage rates (% change p.a.)	4.6	5.5
Unemployment (% of labour force)	7.8	7.5
Total reserves, minus gold (US\$bn)	15.4	16.1
M1 growth rate (% p.a.)	7.4	2.5
M3 growth rate (% p.a.)	11.8	12.8
Bank Rate (% p.a., and-period)	11.2	12.0
Treasury Bill Rate (% p.a., and-period)	9.5	12.0
Long-term Govt Bond Yield (% p.a., and-period)	10.2	9.9
FTA Canada Index (% change over year)	+4.3	+17.6

Sources: IMF, Datastream, Economist Intelligence Unit.



View of Parliament Hill and parliament buildings in Ottawa, Ontario.

## Political profile

## Ontario's Bob Rae: presenting a dual image



Bob Rae, new provincial premier: a stunning victory

WITHIN hours of the votes being counted on September 8, some glum businessmen had renamed Canada's wealthiest province "The People's Republic of Ontario."

Others, however, were optimistic that the incoming New Democratic Party Government would take its left-wing campaign promises on board as it came face-to-face with the reality of running a sophisticated and diversified regional economy.

The divergence of views on how the NDP will use its stunning victory at the polls reflects, in part, the contrasting images projected by the new provincial premier, Mr Bob Rae.

In his suit, stylish braces and studious-looking

speculation, Mr Rae, 42, could easily be mistaken for a banker or corporate director.

He is the son of a diplomat, was educated at a private school in Switzerland and went to Oxford as a Rhodes Scholar. He is no socialist hot-shopper.

Mr Rae told a group of Toronto business people that "you don't have to contribute to my political party to have breakfast with me".

As if recognizing the diversity of his constituency, he began his first speech as premier by addressing his audience as "brothers and sisters, ladies and gentlemen."

But there is another side to Mr Rae and to his party. A side which was summed up by his suggestion to a

business audience that money forked out to private Government consultants would be better spent on food banks for Toronto's poor and homeless.

The platform on which the NDP fought the election is well to the left of any previous Ontario Government.

It promised, among other things, a minimum corporate tax, a jump in the statutory minimum wage to 50 per cent of average industry pay, a

Government-run car insurance scheme, stricter rent controls, and tougher anti-pollution rules.

Mr Rae has already shown signs of backing away from some of the promises. The NDP said during the campaign that it planned to ignore the US-Canada free trade agreement.

Since then, Mr Rae has said only that he wants to find ways of softening the blow to companies and workers

hurt by rising competition from US imports.

Furthermore, the state of the provincial economy leaves the new Government with limited room for ambitious spending programmes or higher taxes. The small budget surplus forecast by the outgoing Liberals for the 1990/91 fiscal year has already turned into a C\$2.5bn deficit.

With the economy now in recession, the new government expects a steep fall in tax revenues and a jump in social payments.

Ontario enjoyed one of the highest growth rates in Canada in the 1980s, but is now suffering a more severe slowdown than most other parts of the country.

Mr Rae has insisted that

"we must create a partnership with the private sector and the business community through negotiation and discussion."

The business community is disturbed, however, by some of Mr Rae's cabinet choices. The new labour minister is a former organizer for the Steelworkers of America trade union.

The civil service portfolio has gone to a former negotiator for the civil servants' union.

On balance, after its first few weeks in office, Canada's only NDP Government has been more conciliatory to business than its harshest critics feared, but less friendly than the optimists hoped.

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Most of the ten provinces are projecting bigger deficits in 1991, says Bernard Simon

## Economic recession looks inevitable

THREE AND A HALF years of rising interest rates and an erratic tightening of fiscal policy have at last taken the heat out of the Canadian economy.

The question is not whether Canada will go through a recession, but rather how deep and how long the recession will be. National Bank of Canada says in its latest economic forecast.

There is widespread agreement that 1991 will be a tough year. Toronto-Dominion Bank forecasts real GDP growth of 1 per cent next year, only fractionally higher than its 1990 estimate and well below the 3 per cent posted in 1989.

Mr George Vasic, director of economic research at DRI/McGraw-Hill, puts forward somewhat higher numbers, with overall growth at 1.5 and 1.9 per cent in 1990 and 1991 respectively. But he agrees that the current business cycle will be a shallow recovery.

The brunt of the downturn is likely to be felt by the housing market and other consumer-oriented businesses.

Housing starts had already fallen to an annualised 197,000 units in September, 1990, from

215,000 in 1989.

From a regional point of view, southern Ontario - which enjoyed the strongest growth in the mid-1980s - is now bracing itself for the steepest downturn.

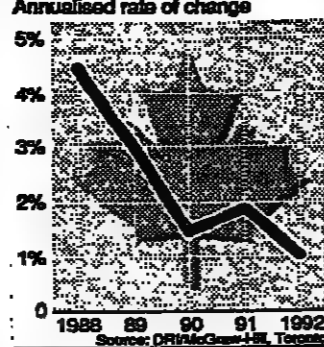
The area around Toronto depends heavily on the steel and automotive industries, as well as on construction. The city's commercial and residential property markets are already in a nosedive.

The Bank of Canada has responded to the rapid cooling of demand by allowing interest rates to fall. Commercial banks' prime lending rate has dropped from 14.75 per cent to 13.75 per cent since early August.

The all-important spread between US and Canadian short-term rates has narrowed from a peak of almost six percentage points early this year to just below five.

### Real GDP

Annualised rate of change



However, the authorities remain cautious. Having been one of the first central banks to see the dangers of excessive demand in the late 1980s, the Bank of Canada continues to keep a watchful eye on inflation.

On the plus side, Mr John Crow, the bank's governor, said last month that "as the demand pressures on inflation have become less intense, there has been scope for easier monetary conditions."

After remaining stubbornly above 5 per cent for much of 1989, inflation - measured by the consumer price index - dipped to 4.1 per cent in the year to August 1990.

But, Mr Crow added, "in order to maintain low interest rates, monetary policy must encourage Canadians to base their action on declining rather than on rising inflation."

Besides the unpredictable oil price, the biggest concern on the inflation front is the 7 per cent goods and services tax (GST), a broadly-based value-added tax due to be introduced on January 1, 1991, as a replacement for a 13.5 per cent manufacturers sales tax (MST).

The Government estimates that the GST alone will raise the consumer price index by 1.25 per cent.

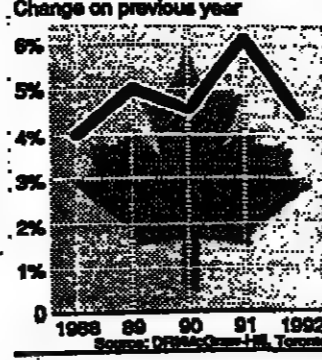
The slowing economy will encourage many businesses either to absorb some of the new tax, or at least to pass on any savings from the abolition of the MST.

Private-sector economists are generally less optimistic than the Government. Toronto-Dominion expects the CPI to jump to an annualised rate of 6.7 per cent or more in early 1991, with a rate for the year of 8.5 per cent. But the sluggish economy and cooling wage demands could bring inflation down substantially again in 1992.

Coupled with the outlook for growth and inflation, Ottawa's ability to hold down interest rates depends heavily on fiscal discipline. The Organisation for Economic Co-operation and

### Consumer Price Index

Change on previous year



Development, in its latest annual report on Canada, notes that "the risk of fiscal policy entering a vicious circle of expanding Government deficits, higher debt service and a debt explosion has substantially lessened in recent years."

The OECD projects a drop in the general Government deficit from 3.5 per cent of GDP in 1989 to about 2.7 per cent in 1991.

Meeting that target will not be easy, however. Mr Michael Wilson, Finance Minister, disclosed in September that Ottawa's budget deficit for the year to March 31, 1991, will be C\$1.5bn higher than the targeted C\$28.5bn.

Higher tax revenues and virtually stagnant programmes spending have been offset by the impact of high interest rates on debt-service payments, which absorb close to 35 per cent of federal revenues.

While the federal Government can take credit for keeping the lid on its programmes, the same cannot be said for the provinces. Some, notably Ontario, have been spending, in the words of a senior policy-maker, "like drunken sailors."

Most of the ten provinces are projecting bigger deficits in 1991, says Bernard Simon. New Brunswick's will probably double.

Ontario, which originally hoped for a small surplus this year, will now have a deficit of at least C\$700m, probably shooting well above C\$1bn in 1991/92.

Pressure to loosen the fiscal reins will be intense on both the federal and provincial levels over the next two to three years. The recession will create extra demands on the public purse. Fiscal discipline is unlikely to be a high priority for the new NDP Government in Ontario.

The federal Government, as it tries to heal the national psyche, will find its arm twisted hard by regional interest groups wanting support for their pet projects. And that pressure will grow as the next federal election draws closer.

The Government's own economic think-tank, the Economic Council of Canada, observed in its latest annual report that, for all the desirability of holding the line on the budget, "further progress on federal deficit reduction will be difficult to achieve."

## Foreign investors take their time

MR MICHAEL HOWARD, the investment adviser at Canada's embassy in Tokyo from 1986-1989, recalls his attempts there to convince Japan that Canada is not surrounded 12 months of the year.

Given the seven-fold increase in the net flow of foreign direct investment by Japan in Canada between 1985 and 1989, he appears to have succeeded in demolishing this chilling myth. However, Canada now faces a new, less familiar image problem. Its political arena, once considered unutterably boring, is now in uncharacteristic turmoil.

The abortive fate of the Meech Lake agreement on constitutional changes, an Indian uprising in Quebec, a popular tax revolt, an overvalued Canadian dollar, high interest rates, an economic downturn, and the deep political difficulties of Prime Minister Brian Mulroney have all added up to a climate in Canada which, snow aside, is threatening foreign investment.

Canada's ability to raise funds in world capital markets has shown signs of faltering. Canada reported at the end of September that foreign investment in Canadian stocks and bonds had fallen 33 per cent to C\$6.5bn during the first seven months of 1990. Japanese investors, retrenching at home,

have cut back especially hard on Canadian securities.

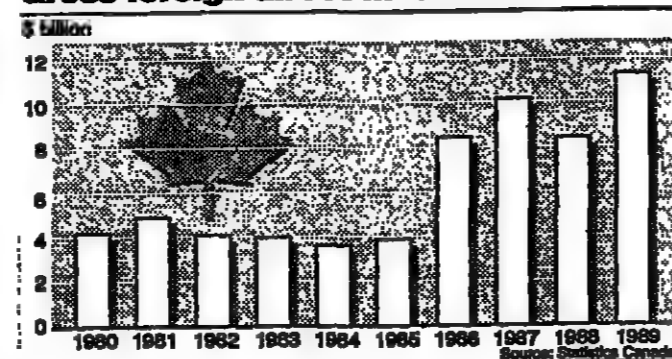
With international confidence eroding and a burdensome annual deficit of C\$30bn, Canada is apt to face paying higher costs for its borrowing. Interest rates on Canadian government 20-year bonds are already running to 2.25 percentage points above those of US Treasury bonds.

To add to the woes, domestic business, through the Canadian Manufacturers' Association, has told Mr Mulroney that it is also starting to lose confidence in the country's economy. Given the Canada-US Free Trade Agreement, an increasing number of Canadian manufacturers are considering moving operations to the US.

Until this year, however, Canada's attractions have far outweighed its problems for foreign investors. Gross flows of foreign direct investment doubled during the 1980s, and since 1985 have increased dramatically from less than C\$4bn annually to C\$11.4bn in 1989.

The country can boast some important achievements: after tax profits have consistently outpaced those in the United States. Federal corporate

### Gross foreign direct investment



Income taxes have been reduced from 35 per cent to 28 per cent. There are also longer term features.

Under the Canada-US Free Trade Agreement, investors have access to a bi-national market of 270m consumers.

The Canadian workforce is highly skilled. Public sector spending on education is higher than other G-7 countries as a share of GDP.

Average wage and benefit costs in manufacturing tend to be below those of the US and labour relations, as measured

by strikes, have improved.

The country has abundant natural resources and is oil self-sufficient. Energy costs are lower than in the US.

It received the highest rating for transportation, communications and power supply infrastructure among the G-7 countries in the 1990 survey of international business leaders by the World Economic Forum.

While the government has advertised Canada as "open for business" regarding foreign investment, the issue arouses persistent domestic sensitivi-

ties. US investment stirs the greatest worry among Canadians who feel that their sovereignty is constantly in peril of being overrun by the colossus to the south.

The sensitivity is not unwarranted. A quarter of the country's assets are owned by foreigners and the lion's share is in the hands of Americans.

Thus, Investment Canada, the government agency charged with promoting as well as approving foreign investment, appears bent on attracting anybody but their southern neighbours. The agency's promotional folder lists glowing testimonials about investing in Canada, but none are from the US.

Investment Canada's biggest card for selling Canada to-day is that investors can have access to the US market while taking advantage of Canada's high quality of life. Its cities, for example, are clean and safe from far less crime than in the US.

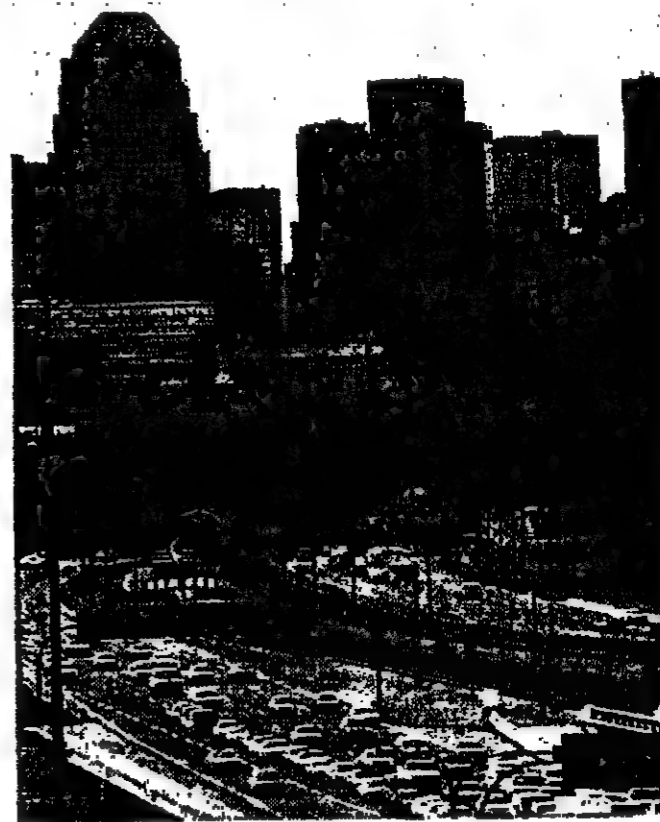
Given Canada's success at finding niches in international markets, it aims to attract investors in select high technology fields, including lasers, biotechnology, advanced materials, computer software, and waste management. Some of Canada's most successful companies are those that have discovered a new process or product and sought strategic alliances with foreign companies to obtain access to markets abroad.

But major investment projects, such as the recently approved C\$5.2bn Hibernia offshore oil project whose consortium of four oil companies - Mobil, Chevron, Gulf, which all have significant US ties, and Petro-Canada, the soon to be privatised national oil company - all have significant US ties, are likely to dwarf smaller niche-type investments.

In the proposal stages, too, are several large natural gas pipelines to the US that could mean billions of dollars in investment.

Even in these troubled times for Canada, mega-projects such as these will go forward.

For those looking beyond this awkward moment, given the Canadian reputation for resolving disputes in a highly civilised manner, the country's attractions may well continue to counterbalance its problems.



Canadian commercial property markets are looking dull. Above: the skyline of Calgary, capital of Alberta.

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## CANADA 4

## Reaction to the Free Trade Agreement

## Signs of increasing public hostility

AS THE 1990s got off to a economically painful start, Canadians saw liberalised trade with the US as something that would help prevent the country from falling into another recession.

Now, a year and three quarters into its Free Trade Agreement (FTA) with the United States, Canada is wading into a new recession and public disillusionment with the accord is growing.

"Public hostility toward free trade shows every sign of increasing," says Mr Angus Reid, a prominent national pollster based in Winnipeg. While the FTA is unlikely to be thrown out, the danger is that public disavowal will force it onto Canada's increasingly troubled and unpredictable political waters.

"There is a public appetite to get more out of the deal," says Mr Reid, who believes it is politically possible that Canada could find itself with a new Government in 1993 that would call for changes in the FTA.

The agreement between Canada and the US, the world's two largest trading partners, began on January 1, 1989, and is to be implemented over ten years.

It gradually eliminates tariffs in one, five and ten year phases on the annual \$200bn worth of Canada-US trade. More than three quarters of Canada's exports go south, and the US sends about one fifth of its exports north.

The FTA facilitates investment and business travel, a provision attractive to Americans who account for some 70 per cent of Canada's foreign investment. A unique national trade dispute mechanism was also created to help remove political motives from decisions.

The problem for pro-free traders and the current Canadian Government of Mr. Brian Mulroney, which negotiated the agreement, is that it is too early to be able to assess the FTA's effects. These are being overshadowed by other forces, such as a strong Canadian dollar and high interest rates.

Consequently, without a list of identifiable FTA benefits, the Government is left with little ammunition to defend what is considered the centerpiece of its policy achievements.

Labour leaders and Canadian nationalists, the FTA's prime critics, charge that the agreement is responsible for job losses as plants move to the US to serve the two mar-



The popularity of Prime Minister Brian Mulroney, above, of the Progressive Conservative Party, is at rock bottom. His association with the FTA in the public mind does not help the pro-free traders' arguments.

kets, now with 270m consumers. If Canada's economic recession is prolonged, the FTA could enter some dark days. The search is already on for a convenient scapegoat for why things have gone wrong.

The popularity of Mr. Mulroney of the Progressive Conservative party is at rock bottom. His association with the FTA in the public mind does not help the pro-free traders' arguments.

The political fortunes of the deal may also be influenced by talks about a US-Mexico free trade agreement, to which Canada has said it wants to be a party.

The announcement by Mr. John Crosbie, the international trade minister, that Canada will participate in three-way exploratory negotiations on free trade immediately drew criticism from the two main opposition parties.

The prospect of a New Democratic party government, never contemplated before the election of the NDP's Mr. Bob Rae to the premiership in Ontario last month, is regarded as the most likely scenario for changing the FTA. However, Mr. Rae, who campaigned against the FTA before his election victory, has now stopped saying he will ignore it.

This appears to support the analysis of Mr. Richard Lipsey, a nationally known expert on the FTA and chief of the Canadian Institute for Advanced Research at the Simon Fraser University in Vancouver. Mr. Lipsey contends: "No Government in power could conceivably tear it up." Even significant changes to the FTA do not stand a chance, he believes.

The reason is that the business community, which is calculated to be 95 per cent in favour of the agreement, would not tolerate undoing the FTA. "The markets would exact too high a price," says Mr. Lipsey.

Business resistance to any FTA changes arises from the efforts companies already have made to adjust to the new regime. Surveys show that Canadian companies have restructured production away from protected areas of manufacturing and toward competitive exports. This has shifted investment and prompted mergers.

Although some of these moves occurred before the FTA was in place, merger activity in Canada during the first six months of the agreement was 31 per cent higher than in the same period the previous year, according to a study by the Royal Bank of Canada.

Overall, according to Mr. Doug Waddell of the Ministry of External Affairs, companies on both sides of the border "are anxious to get on with it". During 1989, Canadian and US companies agreed to an accelerated cut of tariffs on 400 items covering approximately \$60m worth of bilateral commerce.

Unfortunately, such FTA benefits as greater competitiveness by Canadian companies are not yet publicly perceivable and do not rally support for a much-disliked deal.

Officially called the Goods and Services Tax, but nicknamed the Gouge and Screw Tax, the GST to be imposed next January marks Canada's most significant and also most controversial tax initiative in almost two decades.

The 7 per cent GST, which is closely modelled on New Zealand's value-added tax, will be imposed (with some notable exceptions) on all goods and services, giving the federal government a potent new instrument of indirect taxation.

It has unleashed political storms on several fronts. Although enabling legislation has already been passed by the House of Commons, the opposition Liberal party is using a variety of delaying tactics to stall passage of the bill in the non-elected Senate.

Federal and provincial governments have been at loggerheads over administration of the tax, particularly its harmonisation with the retail sales taxes collected by the provinces.

Trade unions are demanding higher wages to protect their members from the inflationary impact of the GST. And of course, many consumers — who already carry the heaviest burden of personal income taxes of any major industrial country — simply don't want to pay another tax.

The GST gets much of the blame for the Mulroney government's sagging popularity, though the government hopes that voters will have stopped complaining by the time the next election comes around.

The GST marks the second phase of the Mulroney government's tax reforms. In the first



The commercial heart of Toronto: there is cautious optimism in the banking sector.

## Banking and financial services

## Preparing to face the storms

ALTHOUGH some of the pressures on US financial institutions have inevitably crept across the 49th parallel, there is cautious optimism that the Canadian banking system is better placed to weather the storms.

"There are going to be shocks, but I don't think there are going to be systemic shocks," says Mr Michael Mackenzie, Canada's superintendent of financial institutions.

He notes, however, that the strength of the system will not really be tested "until the heavy weather sets in and starts rocking boats." As in the US, the main area of concern is real estate, especially in the industrial heartland of southern Ontario where prices of houses, condominiums, office blocks and vacant land are coming down fast from the peaks of 1987-88.

Canada's six big banks between them have an exposure of about C\$130bn to real estate, of which C\$95bn is in residential mortgages.

Mr Terry Shaunessey, director of research at Merrill Lynch Canada, takes a more pessimistic view of the banking system than Mr Mackenzie. Mr Shaunessey estimates that, excluding provisions for troubled Third World loans, the banks' reserves are equal to only 4 per cent of their exposure to commercial real estate and leveraged buyouts.

Another worry for the banks is the forest products industry,

which is reeling from low prices and a series of strikes. The banks' financial performance has so far been mixed. The two biggest, Royal Bank of Canada and Canadian Imperial Bank of Commerce, have been relatively unscathed.

But Bank of Nova Scotia, Toronto-Dominion and National Bank of Canada are paying a significant price for narrowing interest-rate margins and past lending mistakes.

National more than doubled its loan loss provisions in the third quarter and will take a similar knock in the fourth to write off an C\$80m loan to Mr Robert Campeau, the troubled real estate and retailing entrepreneur.

National estimates that its loan losses this year will be C\$246m, which is C\$100m more than it expected earlier in the year. The office of the superintendent of financial institutions (OSFI) has sent one of its teams of senior retired bankers to review National's situation.

According to Mr Mackenzie, "we're comfortable with its portfolio."

In other parts of the financial services industry, Central Capital, holding company for a diverse stable of interests including a sizeable trust company, is in the midst of a sweeping restructuring after biting off more than it could chew in acquisitions and loans during the past three years.

Royal Trust's share price has sagged by more than a third in recent months, reflecting

CANADA'S BIG SIX BANKS		
Financial performance for the nine months to July 31, (last year in brackets)		
Bank	Net income in C\$bn	Assets on July 31, C\$bn
Royal Bank of Canada	759.3 (723.9)	124.0 (114.9)
Canadian Imperial Bank of Commerce	600.1 (576.7)	111.1 (100.9)
Bank of Nova Scotia	401.8 (463.6)	85.7 (80.3)
Bank of Montreal	378.5 (348.6)	82.8 (80.3)
Toronto-Dominion Bank	478.4 (527.4)	67.6 (63.2)
National Bank of Canada	152.1 (205.7)	36.9 (33.2)

Source: FT, Toronto

investors' concerns about its links to the unsettled merchant banking empire controlled by Toronto's Bronfman brothers, its acquisition of several savings and loan institutions on the US west coast, and problems in its international operations.

One important point in the Canadian banking system's favour is that regulatory controls have been greatly tightened since the trauma of 1985 when a total of five banks disappeared.

Mr Mackenzie, whose office was strengthened after the rash of problems in the mid-80s, says OSFI now examines banks' books more frequently and more closely, and co-ordinates its work more closely with the Canada Deposit Insurance Corporation and with the provincial authorities which have jurisdiction over some trust and insurance companies.

Thanks to the reforms of the past few years, regulation of Canada's financial industry is

now more centralised than in many other countries. OSFI keeps an eye on all federally regulated banks, trust companies, insurers and a number of more specialised institutions. (Securities firms are still regulated by provincial securities commissions.) OSFI has set up auditors' advisory committees for each sector of the financial services industry.

A joint task force of OSFI, the CDIC and the Ontario Government has been created to examine financial institutions' real estate exposures.

Mr Mackenzie is confident that the banks themselves have learned a lot from the 1985 experience and from their own problems in the 1981-82 recession. He points, for instance, to stronger boards of directors and closer co-operation with auditors.

Mr Helen Sinclair, president of the Canadian Bankers Association, adds that "we're feeling a little bit vindicated after earlier criticism about our con-

servation." Driven by the liabilities rather than the assets side of their balance sheets, most of the insurance companies are burdened by fewer problem loans than the banks. A handful, however, do have a worrying exposure to the tectonic US real estate market.

More than a dozen life insurers have acquired trust companies, which specialise in home mortgages, short-term deposits, and fiduciary services such as estates administration.

Life insurers, banks and trusts will be able to broaden their horizons further under proposals for regulatory reform published at the end of September. The new rules, which Ottawa hopes will become law within a year or so, will significantly narrow the remaining gaps between the traditional four pillars of the Canadian financial services industry (banks, trusts, insurance companies and securities dealers).

Banks will be allowed to acquire insurance companies and trusts, while trusts and insurance companies will be able to acquire each other.

Existing curbs on trust companies' commercial and consumer lending will be lifted, transforming them into banks in all but name. Widely-held foreign financial institutions, such as mutual life insurance companies, will be allowed to set up banks in Canada.

Bernard Simons

## The Goods and Services Tax

## A controversial initiative

Officially called the Goods and Services Tax, but nicknamed the Gouge and Screw Tax, the GST to be imposed next January marks Canada's most significant and also most controversial tax initiative in almost two decades.

The 7 per cent GST, which is closely modelled on New Zealand's value-added tax, will be imposed (with some notable exceptions) on all goods and services, giving the federal government a potent new instrument of indirect taxation.

It has unleashed political storms on several fronts. Although enabling legislation has already been passed by the House of Commons, the opposition Liberal party is using a variety of delaying tactics to stall passage of the bill in the non-elected Senate.

Federal and provincial governments have been at loggerheads over administration of the tax, particularly its harmonisation with the retail sales taxes collected by the provinces.

Trade unions are demanding higher wages to protect their members from the inflationary impact of the GST. And of course, many consumers — who already carry the heaviest burden of personal income taxes of any major industrial country — simply don't want to pay another tax.

The GST gets much of the blame for the Mulroney government's sagging popularity, though the government hopes that voters will have stopped complaining by the time the next election comes around.

The GST marks the second phase of the Mulroney government's tax reforms. In the first

stage, implemented in 1987, personal and corporate income tax bases were broadened, while rates were lowered. (Some of these benefits have already been eroded however, by surtaxes on large companies and high-income individuals, and by higher provincial tax rates.)

Assuming the GST is implemented as planned on January 1 or shortly thereafter, it will replace a 13.5 per cent manufacturers sales tax (MST), which was difficult to administer and put an unfair burden on domestic industry and exporters.

The new tax has the technical advantage (but political drawback) of being a more visible and more broad-based source of income than the MST. It will be charged by all businesses, including retailers, on their domestic sales.

To ensure that only added value is taxed, vendors can claim a credit for any GST paid on their inputs. Exceptions to the GST will be either tax-free (zero-rated) or tax-exempt. In the case of tax-free goods, no GST is payable, and vendors will be able to claim their full input tax credits.

Tax-exempt goods will also be free of tax, but no credits can be claimed. The three main tax-free categories are basic groceries, medicines and medical devices.

The definition of basic groceries has led to much head-scratching, and there have inevitably been some anomalies. Biscuits and muffins for instance, have been classified as tax-free, but the full 7 per cent GST will apply to yogurt.

Tax-exempt goods include financial services (with the

notable exception of leasing), most education services, residential rents, health and dental services and daycare. Special arrangements apply to several groups.

To ease the burden of the GST on the poor, people with 1991 incomes below C\$24,800 can claim a tax credit of C\$190 per adult and C\$100 per child. The credit will be reduced by

Many people worry that the tax will not remain at 7 per cent

C\$5 for every C\$100 of income above the threshold.

Small businesses with annual sales of less than C\$80,000 may opt out of the system, neither paying tax nor being able to claim tax credits on their purchases. A 100 per cent capital cost write-off will be available to any business to offset the expense of upgrading electronic point-of-sale or inventory-control systems

prior to 1993. Municipalities, universities, schools and hospitals will receive a partial rebate of tax paid on their purchases. To ease administration of the new tax, Ottawa has been eager to combine the GST with the retail sales taxes which are already levied by all the provinces, except Alberta.

Provincial governments have balked, fearing that they would lose control over one of their chief fiscal instruments, while also becoming the butt of public anger against the GST.

The federal government achieved an important breakthrough in July when Quebec agreed to transform its 9 per cent sales tax into a value-added system, and combine collection with the GST.

Mr David Perry, senior researcher at the Canadian Tax Foundation, predicts that other provinces will eventually come on board, but that they will demand in return wider discretion in setting provincial personal and corporate income tax rates.

At present, the provinces must weave their income taxes around the basic rates set by Ottawa. Even if the provinces do co-operate on the GST, businesses face some compliance headaches. Mr Perry cites the example of a salesman who takes a trip with stops in Vancouver, Edmonton, Regina and Toronto, each of them in a different province with different sales tax rates. Determining the correct level of input credits which the salesman can claim on the salesperson's expenses could be a nightmare.

For all its flaws and current unpopularity among consumers, the GST has been widely welcomed by business as a long-overdue step towards a fairer, more competitive tax system. The one universal concern is that the rate may not stay at 7 per cent for long as the politicians of Ottawa — of whatever stripe — succumb to the temptation of milking a very fat revenue cow.

Bernard Simons

## A WORLD FOCUS

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GOODS AND SERVICES TAX	
Exemptions and zero-rated supplies	
TAX-EXEMPT (unless exempt but taxable on inputs)	ZERO-RATED (no tax on inputs)
Conceptual Exports	
Interest, dividends, taxes, wages	
Practical, social	
Educational services	
Residential rents	
Very small businesses	
Most supplies by charities	
Financial services	
Used housing	
Legal aid	
Prescriptions	
Health services	
Medical devices	
Political, social	
Agricultural services	
Basic food	
Day care	

Unlisted status for these items is a conceptual presumption. No input tax credits are available to providers of these "supplies."

Source: Price Waterhouse

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That phrase from our national anthem may seem passé in this era of globalisation...but if you are looking at business opportunities in Canada and are not conversant with our legal and regulatory system, you may welcome a little guarding.

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Let's keep things in perspective.  
We're not having a record year.

We're not even having the best year  
in our history. (Who is?)

But we're certainly not having our  
worst year.

We're beavering away, trimming a  
little here, putting on muscle there.

We're still one of the biggest and  
most diversified companies in Canada.

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and prosper, we'd be the one we'd back.

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doing, by continued investment and  
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products.

Oil and gas; improving, may well gush.  
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Forest products; bit pulpy at present.

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to boom.

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lit and running.

And all this, we might add, is being  
done with ecology and conservation in  
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That's where we stand today.

We're making a profit. It's not as  
much as we'd like, nor as much as we'll  
make in future.

But during 110 years, you learn to  
take the rough with the smooth.

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## CANADA 6

## Strong reform call in Western Canada

## Feelings run high

SINCE the 1870s, five political reform movements have emerged from Western Canada, to voice the area's perennial feeling of being ignored by the federal government. Most of these movements have faded ingloriously into the sunset, but the latest, the Reform Party, is giving Ottawa politicians more headaches than in the past.

The Reform Party's message, tinged with conservative populism, is about national rebirth. Coming as it does in the midst of Canada's current national turbulence, this idea appears to be falling on fertile ground. Since its founding in 1987, the party has steadily gained adherents and admirers. It will double its membership this year to more than 60,000.

In a recent Gallup poll, Reform was favoured by 7 per cent of all Canadians (almost half the backing for the ruling Progressive Conservative party). Gallup credited it with 23 per cent in the prairie provinces and 20 per cent in British Columbia.

Mr Preston Manning, the Reform leader, says, "the old Canada is dying and a new Canada is being born." In Mr Manning's mind, new Canada will respond more to Western provincial interests, undo the welfare state and cater no longer to French Quebec's demands.

In the massive swaths of territory that runs from Ontario to the Pacific, Mr Manning's sentiments are widely shared. Westerners are fed up with being economically and politically smothered by Ottawa and they resent the money spent to impose bilingualism nationally although French alone reigns in Quebec.

One area of central Canada's favouritism which arouses frequent controversy is federal government procurement. The prairie provinces of Manitoba, Saskatchewan and Alberta won just 15.7 per cent of Government contracts during the 1986-1990 fiscal year. British Columbia accounted for only another 5 per cent. Ontario held the lion's share with 48.2 per cent and Quebec claimed 30.4 per cent. Another source of annoyance is taxes.

Alberta, the home of Canada's energy industry, has made huge contributions to the federal treasury in the form of energy taxes, but feels it has had little federal Government attention in return. It has thus become an epicentre of a popular tax revolt against the 7 per cent goods and services tax,

## Federal government procurement

	Contracts	\$m value	% of total
Newfoundland	5,014	167.3	2.2
PEI	1,798	23.9	0.3
Nova Scotia	228,178	388.4	5.0
New Brunswick	8,594	293.3	3.8
Quebec	45,792	1,488.2	20.4
Ontario	112,688	3,519.4	45.2
Manitoba	5,829	308.4	4.0
Saskatchewan	4,735	84.9	1.1
Alberta	17,148	705.9	9.7
British Columbia	22,493	368.3	4.8
Yukon and NWT	1,430	28.2	0.4

Source: Government Procurement International

which Albertans say they will refuse to pay. Although the Liberal party has opposed the tax in the Senate, this seems a political gambit to take advantage of the GST's unpopularity. The Alberta oil and gas industry, which before the Iraq-Kuwait crisis had been suffering from a slump in energy prices, has subsequently perked up. However, Albertans have seen price swings come and go and are not jumping quickly to invest or spend.

Mr Dan MacNamara, vice president of the Canadian Petroleum Association in Calgary, says "you don't make a project based on the war." Conventional oil reserves in Western Canada are in decline. Reserves in producing fields declined 4.1 per cent in 1989 to 4.7bn barrels, following a 34.7

## Report by BARBARA DURR

per cent drop in drilling activity last year.

Unconventional reserves, such as those in the Arctic, could mean new investment but they cannot be economically tapped without a sustained high oil price. Although C\$4bn worth of energy properties from 40 companies in Alberta were on offer until last June, only about half have been sold, according to Mr Frank Sayer, of Sayer Securities in Calgary. Uncertainty about the market and the value of properties has plagued sales. While oil prices have risen 50-100 per cent, oil company share prices have risen only 5-10 per cent.

These share increases came as the Toronto Stock Exchange overall fell by about the same amount. Gas pipeline projects currently under consideration could bring a boom to Alberta, but for the moment the province is cautious. Consumer spending is expected to rise moderately. Low world prices for a bumper grain crop are

more deeply affecting Manitoba and Saskatchewan, which are less diversified than Alberta. Having managed to recover from the 1988 drought, the prairie provinces are now facing a dramatic drop of 44 per cent in farmer income compared with 1989. Net farm income in Saskatchewan alone will fall 68 per cent, according to Prairie Pools, the combined organization of farmer co-operative pools in the three prairie provinces.

Production growth in Saskatchewan will rise to 6 per cent this year, but Mr Tim Whitehead, a regional economist with the Canadian Imperial Bank of Commerce, called the province's income situation "just dreadful."

Manitoba's difficulties on the grain trade will be helped by gains in livestock production which will be helped by lower grain prices—and some other economic diversification. But net emigration, modest real wage growth and slow expansion of employment will keep consumer spending and construction down.

If there is a bright spot in the West it is British Columbia. For the last three years, BC has outpaced the rest of Canada in economic growth and 1990 is expected to continue the trend. Although the province's economy is subject to swings in the prices of its main commodities—minerals and forestry products—it has drawn its economic dynamism from an enormous influx of immigrants.

From 1987-1989, 300,000 people migrated either from other parts of Canada or abroad to British Columbia.

BC's magnetic force is expected to continue to draw immigrants through 1991. Such strong population growth has boosted the services sector in particular. Overall employment growth is expected to run 2.7 per cent this year after a 5.7 per cent increase in 1989.

## A new, clearly defined political relationship is sought with Ottawa

## Quebec wants more autonomy

THERE HAS been an important change in Quebec public opinion this summer. Most people in the French-speaking province now believe it must negotiate a new relationship with 'English Canada'.

The change follows the collapse in June of the Meech Lake Accord. Quebec's French-speakers, 80 per cent of the province's 6.5m inhabitants, had regarded the Accord as a test of English Canada's goodwill. It recognised Quebec as a "distinct society" and offered other concessions over autonomy and funding.

Quebeckers thought it a fair price for their province's assent to the constitution in 1990, and Quebec's federalist premier, Mr Robert Bourassa, had staked a great deal on it.

But it was subsequently repudiated by English Canadians who felt that 25 years of federal concessions had already sufficiently awarded Quebec in terms of special status. Now the message from Canada's second largest province is: "They rejected our modest demands—what does English Canada want?"

In 1982, the government of the separatist Parti Québécois had rejected former prime minister Mr Pierre Trudeau's terms for signing the Canadian federal constitution, saying his "new federalism" was more centralist than the old.

There has long been a 20 per cent minority in Quebec demanding political and economic independence, a supreme National Assembly in Quebec City, a unilingual French-speaking community and ultimately a Quebec dollar.

Now there is a re-think at the centre. A big majority, perhaps 70 per cent according to opinion polls, is no longer willing to accept Canada's post-war status quo and the perennial federal-Quebec dogfights over jurisdiction and money.

It wants a new, clearly defined political relationship with Ottawa which would give Quebec more autonomy while leaving the economic ties mostly undisturbed. For some this means a form of "sovereignty", a term now used with abandon throughout Canada.

The centre has found many new voices, some strident, as in the extravagant claims of the provincial Chamber of Commerce, representing smaller businesses and the outlying areas as well as Montreal. But they also include senior French-speaking business leaders such as Mr Claude Beland, who heads the \$36m Desjardins credit union movement, and Mr Claude Castonguay, former senior Quebec Cabinet minister and retiring chairman of the Laurentian Group.

Until June, when the Meech Lake Accord was rebuffed by English Canada, Quebec's business community had been staunchly federalist. In the 1980 referendum on independence for Quebec, it campaigned hard for the "no" side. But business sector now feels frustrated by English Canada's refusal of what it regards as a moderate settlement. Post-Meech emotions ran high, but they have been distracted by

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## A shadow cast over Atlantic provinces

CONSTITUTIONAL squabbles and a slackening economy are casting a shadow over Atlantic Canada. While public reaction has so far been muted, politicians and pundits in the four eastern provinces (Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island) have pegged the death of the Meech Lake constitutional accord last June as the most significant event of the past year.

Now that Quebec seems set to press for looser links within Confederation, the four provinces to the east are worried that forthcoming changes will threaten the generous transfer payments they receive from the rest of Canada.

"The fear is simply this: Quebec comes up with a new form of association with Canada and it makes it more difficult for this region to prosper. You're back to the scenario that [this region] is the Banquo of Canada," says political scientist Agar Adamson.

Nova Scotia's governing Progressive Conservative party is temporarily leaderless until a replacement is found for long-serving Premier John Buchanan, who left office under a cloud in September to take up a seat in the federal Senate.

Both Newfoundland Premier Clyde Wells and New Brunswick leader Frank McKenna earned Quebec's animosity for their opposition to the Meech Lake Accord.

McKenna's low standing in Quebec hasn't prevented him from trying to direct the national agenda. In mid-September he called for renewed efforts to create a constitutional agreement that Quebec would support.

He also launched a call for a Maritime economic union. The second proposal calls for forming a single integrated economic unit made up of all the Atlantic Provinces except Newfoundland.

While McKenna's second proposal is modeled after post-1982 Europe, the idea of a Maritime union is as old as Canada. But Philippe Doucet of New Brunswick's University of Moncton, says McKenna will not win much public support.

Doucet says Atlantic Canadians are tired of endless debates on issues like the constitution. Language tensions are already simmering in New Brunswick, Canada's only officially bilingual province.

Further pressure to meet Quebec's aspirations could anger the growing Confederation of Regions Party, a political rump group opposed to bilingualism. The Maritime union idea is unlikely to take hold unless it is forced on the

public by an impending crisis. "Unless there is some sort of catastrophic pressure, I can't see anything happening that will force us into regions," Susan McCarquodale of Newfoundland's Memorial University says.

That some of crisis has not yet materialised. An August survey by Halifax-based Corporate Research Associates found 58 per cent of Atlantic Canadians doubt Quebec will separate. Thirty-eight per cent thought separation likely.

More than half of the 1,800 people surveyed thought Quebec's departure would result in no change or an improvement in living standards in the region. Another 37 per cent thought standards would drop.

Business groups, however, welcome the idea of a Maritime economic union. AFSC president Tim O'Neill says greater co-operation makes sense in a global environment of falling trade barriers. The immediate

threat to the region is the recession now gripping the country as a whole.

A shrinkage in federal government revenues will likely lead to cuts in transfer payments to the provinces. Despite being the poorest province in Canada, Newfoundland may escape the recession relatively unscathed.

While a slowdown in resource industries is a threat, it is offset by construction of the massive Hibernia offshore oil project.

In mid-September the province, Ottawa, and a consortium of oil companies finally put in motion development of Hibernia. The \$5.2bn project will see 10,000 jobs created in the province over the next six years.

APEC's Tim O'Neill says Hibernia's spillover effects will help all four provinces. But it will not be enough to pull Nova Scotia clear of a recession.

The province's large fishing industry continues to suffer from cuts in catch quotas, which have led to numerous plant closures and layoffs in rural areas.

Nova Scotia's exports and manufacturing sector have already started slowing in line with national trends. If prices for pulp and paper and metals slip further, New Brunswick will also fall into recession, APEC officials say.

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## Enjoyment in a cold climate

IN DECEMBER many Canadians' thoughts turn to "heading south" for the sunspots of Florida, the Caribbean and California. Those left in the Frozen North have little choice but to make the best of the frigid temperatures, blizzards, ice and slush that are the hallmarks of a Canadian winter.

Surprisingly, though, it is possible with little effort not only to survive winter in Canada but to enjoy it. The secret—for both Canadians and their visitors—is to make that extra effort.

The short days and long nights from December to March can be a bore for the ill-prepared or unadventurous. Shovelling snow from the driveway, window-shopping or sitting morosely in some high-rise hotel room can all too easily dominate the winter routine. It is no coincidence that those who complain loudest about winter are often the "couch potatoes" unable to spot any opportunities for fun beyond their television sets.

Setting foot outdoors does have its hazards. Frostbite is a risk for anyone venturing out without warm gloves and boots. Ice roads and pavements are a constant hazard for both drivers and pedestrians. On the prairies, desperate people even commit suicide in January or February by simply walking outside and taking off their clothes in the minus 40 deg C cold.

But Canadians have learnt to adjust to their harsh climate to the point where winter can be as full of outdoor fun as any of the other seasons. Most of the main Canadian cities are within an hour or two drive from downhill and cross-country skiing.

Whistler, about two hours' drive north of Vancouver, has become especially popular among downhill skiers in recent years. The skiing and the scenery around the Rockies resorts of Banff and Lake Louise are on a par with anything North America has to offer.

An invitation to one of the elegant privately-owned ski clubs north of Toronto also guarantees an enjoyable Saturday or Sunday.

Many country inns have excellent cross-country ski trails. For the less energetic, their facilities also usually include sleigh rides, saunas, indoor swimming pools and, of course, a superb table. Among the popular inns are Bensfield Inn and Deerhurst near Toronto, Anberge North Hatley in the Eastern Townships of Quebec, and Le Châteauneuf and La Seigneurie in the Laurentians north of Montreal.

For those looking for something closer to home or hotel, there is cross-country skiing in city parks and along golf courses; tobogganing on just about any slope (even the inclines at the side of raised highways); and, of course, ice skating. There are about 170 skating rinks, many of which do double-duty as tennis courts during the summer. One—which unfortunately, is often over-crowded—is located right next to the city hall opposite the Sheraton Hotel.

The less energetic might consider an after-dinner drive around some of the wealthier city neighbourhoods in the three or four weeks before Christmas, when many Canadians decorate the outside of their homes with coloured lights. Some of the displays are spectacular, especially after a fresh snowfall. A foreign visitor planning a winter trip to Canada needs to make some

basic preparations. As a general guide, cities on the prairies (Winnipeg and Edmonton, for instance) are coldest with the temperature regularly falling below minus 30 deg C. Next are Montreal and Ottawa, which tend to have more snow than the prairie cities.

Except for a few ultra-cold snaps, the temperature in Toronto is normally just below freezing, and weeks can pass without any snow on the ground. In Vancouver, one is more likely to strike rain than snow, even in January.

Suitable clothing is essential, including a heavy overcoat, a scarf, gloves and a hat. Over-shoes (commonly called rubbers) or boots are a must to give a better grip on roads and pavements, and to prevent damage to shoes from the salt which is liberally spread over city streets after a snowfall.

Winter underwear is not necessary for a business trip, as all office buildings and shops are well (sometimes too well) heated.

For those wanting to take part in winter sports, skis and skates can be rented. Anyone not accustomed to driving in wintry conditions should rely as far as possible on public transport or taxis, rather than hire a car.

If you must drive, make sure the car has a plentiful supply of windshield cleaner, and a scraper to clear the windows of ice and snow. Above all, drive carefully and slowly.

## Winter tips for business visitors by BERNARD SIMON

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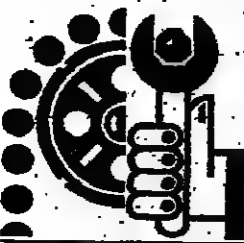
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## ITALIAN INDUSTRY

SECTION III

Tuesday, October 23 1990



In spite of impressive economic and industrial growth made in Italy during the 1980s, the legacy of the political negligence of that decade now has to be faced. The potential effects of the Gulf crisis are adding to a growing mood of anxiety, writes John Wyles

## Roman skies cloud over

THERE IS a fluttering in the Italian air which can only be described as the sound of a few chickens coming home to roost. The 1980s were by no means a wasted decade, given the robustness of Italy's industrial and economic recovery, but the political errors and lost opportunities of those years are beginning to sour a mood in industry which had already turned sombre before it needed to take account of the effects of the Gulf crisis.

Italian moods, like the Roman sky, can swing from sunshine to rain in very quick order. But the decline of bright optimism about the industrial future has been building up for some time, in parallel with a slowing of the economy and an obviously less cheerful outlook for profits.

The anxieties focus most strongly on competition and political interference in the public sector, and they have adopted as their emblem this year's extraordinary struggle for control of the Enimont public-private joint venture and Fiat's recent exchange of shares and assets with CGE of France.

The first has begun to rival Bismarck's celebrated Schles-

wig-Holstein question for obscure complication. It is being marked down, however, as a failed exercise in public-private collaboration more because of a clash of business cultures than of personalities. Such cultural conflict emerges most clearly, as in the Enimont case, when the changing conditions of the market require swift responses and job losses.

ENI, the state energy company, was politically unable this year to respond to the urgings of its partner, Montedison, to reconsider their previously agreed business strategy, because Italian politicians cannot be led that quickly into creating unemployment.

Nor will they easily bend the knee to the urgings of Montedison's president Mr Basil Gardini. For the Italian political class is above all proprietorial and one of its justifications for controlling about one third of national output is that the public sector acts as a countervailing power to the private sector grandees, Agnelli, De Benedetti, Pirelli, Gardini, Berlusconi et al.

Herein lies the basic weakness of Italia Inc whose ideologues in both the government and public industry propose a

consolidation of national industrial power so as to create units of a size to compete in world markets. A little flexibility and imagination, and above all political freedom, would have enabled IRI, the state holding company, to match most, if not all, of the components of Fiat's deal with CGE. But the political omens were hostile to the necessary reshuffling of assets between public and private and the opportunity was lost.

Much has been made in Italy about the emerging Italian-French axis which the Fiat-CGE deal highlights. IFIL, the Fiat Group's financial holding company, is already the major operator in the Italian food industry through its alliance with BSN-Danone while Mr Carlo De Benedetti also has extensive French interests through his CERUS holding company.

Although these links may ultimately represent a strategy to counter German industrial power, the exchange of shareholdings are also in Fiat's case a defensive manoeuvre against unfriendly takeovers in partnership with the product of a compatible business culture. Mr De Benedetti maintains

that apart from the structural obstacles to making acquisitions in Germany, there remains the simple fact that it is difficult to persuade good German managers to work for Italian companies.

The Fiat-CGE deal certainly displeased some top politicians to the extent that Confindustria, the industrialists' organisation, even anticipates some possible retaliation. It is unlikely, however, to provoke a serious political rethink about privatisation or relaxing political controls on the public sector because these are essential to maintaining the foundations upon which the Italian system of "partitocracy" (party rule) is based.

The system will cling to the notion that the public sector is needed as a countervailing power to the private, although it has been emptied of serious content by the recent passage - after three years of debate and two of legislative travail - of anti-trust legislation.

Objectively, this should provide the framework of rules for regulating the exercise and growth of private sector industrial and economic power, but only fundamental reforms of the political system designed

to transfer power and control to the ordinary citizen can begin to roll back the frontiers of party control.

No such reform can be expected under the present coalition led by Mr Giulio Andreotti whose policies are becoming the despair of the private sector and also of many public managers. It is not that Mr Andreotti's government is so much worse than many of its predecessors, nor that it is unique in failing to find convincing responses to challenges such as the public sector deficit and woefully uncompetitive public services.

The problem is that Mr Andreotti and his leading ministers, largely Christian Democrats but also some Socialists, have seriously widened the gap in Italy between action and rhetoric on so many of these matters.

It is also that they do not seem to care; only this month they have promoted to the presidency of ENI, the smallest industrial public holding company whose debts of more than L5,000bn (£3,199.78m) exceed its annual turnover, a Socialist who was vice-president of the group during its recent disastrous deterioration.

Such a move pains and troubles many industrialists, both public and private because of a sense that time is running out: time to find a lasting solution to public deficits before the markets deem that they are incompatible with membership of the European Monetary Union; time to give public industry and services more freedom to manage and to price their services.

Time to create a railway system which can move people and goods with competitive efficiencies; time to launch a policy of diversified energy supply to soften the savaging effects of a \$40 or \$50 or \$60 per barrel energy price; time to reform the tax structure so that private companies do not carry greater burdens than their counterparts in the EC; time, in sum, to address the structural handicaps which may well seriously impede Italian growth in the opening of global industrial and financial markets in the 1990s.

"I think we are heading for five years of crisis," says one observer at Confindustria. "Temperatures are running high and language is running low in

the Italian industrialists' organisation partly out of a sense of frustration. The government, it is said, does not understand and does not want to understand the private sector and the market.

The Italian Catholic tradition has always been somewhat weak on such matters. Mr Andreotti understands above all politics, power and maximising consensus. These are the principles which inform all of his government's important policies, from the budget to industrial organisation.

Now in his sixth term as prime minister, Mr Andreotti's style is to warn that the budget deficit will bring the nation to collapse and then to produce proposals for reducing it which are based on unsound numbers, a minimum of reform and of no threat to any particular interest group.

The 1991 budget proposal may seem to be a sad commentary on the effectiveness of Mr Guido Carli, the treasury minister and former governor of the Bank of Italy, whose appointment had the result of giving the government a cloak of financial rectitude.

In reality, Italian treasury

ministers suffer from the fact that budgetary responsibilities are divided between three ministries, a device which has ensured that financial rectitude does not prevail.

The only other significant voice arguing for a fundamental attack on budget deficits and more coherent industrial policies is that of Mr Adolfo Battaglia, the industry minister. But he comes from the small Republican Party (3.7 per cent of the vote in 1987) and consequently is rather short on clout.

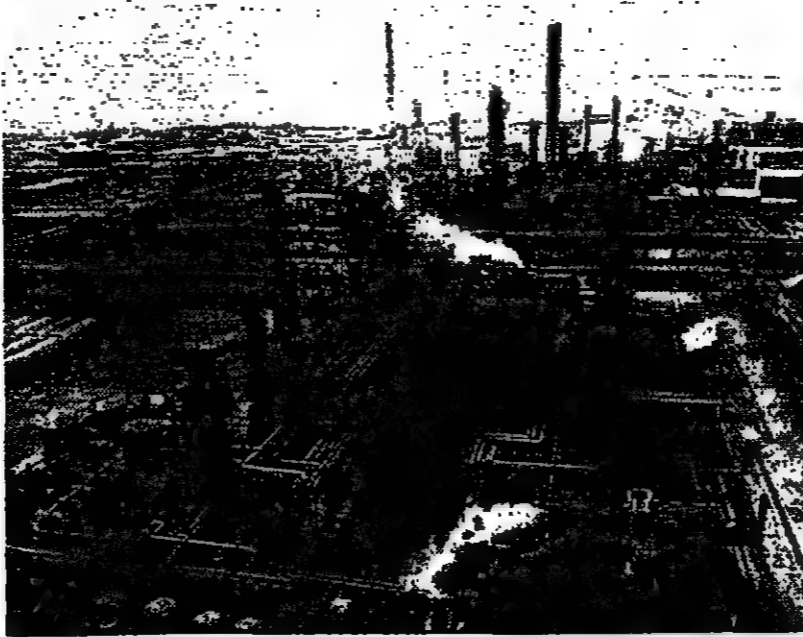
Mr Battaglia fights a lonely battle for more liberal economic policies, more privatisation and a coherent approach to sustaining the spinal column of the Italian economy, small and medium-sized businesses. But he is no match for Mr Andreotti who knows little about industry except that it can be a good source of funds, and his genial henchman, Mr Paolo Cirino Pomicino, minister for the budget.

The primacy of politics in the Andreotti administration means surviving until the next general election (almost certainly next year).

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Prime minister Giulio Andreotti (right) and Guido Carli (left), finance minister: widening the gap between action and rhetoric

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## ITALIAN INDUSTRY 2

The Gulf crisis has plunged a sinking economic confidence lower still, writes John Wyles

## Brows of industrialists begin to furrow

THE FALL-OUT from the Gulf crisis is giving the Italian economy a rather unpleasant attack of toothache and is uncertain whether the pain will dissolve naturally with time or whether specialist treatment is needed.

Early optimism that the crisis might be short-lived and that the oil price might settle at a level no higher than \$25 next year is now giving way to darker fears and some sharp regrets.

With the price hovering around \$40 and authoritative estimates emerging that next year's average may not be a great deal less if there is a war in the Gulf, there is a growing anxiety about the consequent impact on domestic inflation, the trade balance and the exchange rate.

As brows furrow, there is a predictable tendency among industrialists and some politicians to regret the choice made by referendum in 1987 to forego the employment of nuclear energy as a major source of electricity. Despite the difficulties caused by previous oil crises, Italy remains dependent on imports for 82 per cent of its energy requirements, even though its use of energy is more efficient than it was a decade ago.

The conundrum facing all forecasters centres on the judgement about the impact of the "Gulf factor" on an economy that was already showing some signs of slowing. For the first time for many

years, the output in the second quarter fell slightly, by 0.2 per cent, compared to the first quarter with industrial production sliding by 2.8 per cent.

Textiles, engineering and transport were foremost in registering falls in production. By the summer slow, or even negative, growth prospects in various markets at home and abroad were causing some companies to announce temporary lay-offs.

Foremost among these has been Fiat Auto which is laying off 30,000 workers for periods this autumn because of a fall in market share in Italy and slackening demand in Europe. Such developments, alongside the Gulf crisis, have helped to plunge the index which measures confidence in the economy among Italian families to one of the lowest levels in recent years.

A year ago, the official government expectation was of a 3.4 per cent growth rate this year. By May this had been revised down to 3 per cent and was further shaved to 2.5 per cent when the government presented its 1991 budget proposals last month. This is still more optimistic

than most private forecasts, although very few of these have yet taken account of the impact of a higher oil price.

However, the research department at Confindustria has been quick off the mark with forecasts based averages of \$25 and \$35 per barrel. The former price yields a growth rate this year of 2.4 per cent and of 2.3 per cent next year. The higher oil price's effect is more dramatic, cutting next year's rise in gross domestic product to a very modest 1.6 per cent.

The balance of payments deficit on the current account would rise from 1.2 per cent in 1989 to 1.3 per cent this year on \$25 and 1.6 per cent on \$35 per barrel. The same deficits next year would be 1.7 per cent or 2.4 per cent of gross domestic product.

Inflation, meanwhile, would climb from 6 per cent last year to 6.1 or 6.4 (\$35) per cent this year and

to 6.6 or 7.3 per cent (\$35) next year. Both next year's estimates are a far cry from the government's inflation objective of 5 per cent which assumes a \$25 per barrel oil price.

But there was, as the Americans say, "an awful lot of air" in the numbers which the government pulled out of its hat when presenting the 1991 budget last month. So loose has been the control of spending on health and pensions that government forecasting of budget deficits in Italy is more akin to the art of the water diviner. The past three years have been marked by supplementary budgets to bring the fiscal process back on course, but even then these failed to achieve the original deficit targets.

As prime minister Mr Giulio Andreotti and Mr Guido Carli, the treasury minister, have been repeatedly stressing, the political and economic arguments for capping Italy's spiralling debt are unanswerable.

The deterioration since 1986 has been severe, maintaining Italian interest rates well above European averages, crowding out the private sector in the process, and ultimately threatening Italian partici-

pation in the move towards economic and monetary union.

In the past four years, the volume of outstanding debt has soared from L769,091bn or 85.6 per cent of GDP, to an estimated L1,290,000bn or 99.47bn of GDP this year. Despite repeated efforts — according to some experts not as skilfully directed as they might have been — the authorities have failed to extend the average maturity of the debt

## Deterioration since 1986 has been severe

which now stands at around two and a half years.

Quite deliberately, and with characteristic Italian masochism, the Bank of Italy and the Treasury have reduced the room for economic manoeuvre by putting the lira into the narrow 2.25 per cent margin of fluctuation band of the EC's Exchange Rate Mechanism at the start of the year.

Given that interest rates are the only tool available both for debt funding and managing the lira it is

not difficult to foresee potential policy conflicts. For example, weakness in the lira induced by rising oil prices possibly requiring higher interest rates, which in turn push up the cost of debt servicing when it has already reached around 90 per cent of this year's total projected deficit of around L140,000bn.

Alternatively, moves to raise domestic interest rates to guarantee funding could serve to strengthen the lira excessively and to complicate management of the exchange rate within the ERM's margins.

The government's medium term economic plan aims to begin reducing the volume of outstanding debt as a percentage of GDP from 1993. To this end, next year's budget is of primary importance because it aims for the first time in well over a decade to produce a surplus — of L8,100bn — on current spending net of interest payments. Ministers hope that this prospect will reassure the markets to the extent that interest rates, and therefore interest costs, will fall during the course of next year.

But one cannot escape the feeling that too much is being attempted

"on a wing and a prayer". A feeling apparently shared by Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, who recently told a parliamentary committee that it was virtually impossible to know whether some of the government's proposals would actually yield the amounts indicated.

The trend budget deficit for 1991, says the government, is around L120,000bn, and it is postulating spending cuts of L20,000bn, extra revenues of L19,000bn, the sale of L5,500bn of state assets and a L3,000bn saving on interest costs.

However, some spending cuts are merely postponements of disbursements and projected revenue increases are partly based on optimistic outcomes for a further clampdown on evasion and an optional facility for companies to revalue their assets.

Interest savings, meanwhile, are very much hostage to developments in international interest rates which, in turn, will be determined by the Gulf crisis and policies in Japan, Germany and the US. Some economists doubt that the government will save more than half of the L48,000bn it is seeking.

Italy cannot afford to miss its budget targets for 1991. But uncertainty in the international economy and doubts as to whether it is seriously addressing the underlying causes of its budgetary imbalances suggest that tougher additional measures will be needed next year.

## TEXTILES: BIELLA

## Region acquires renown abroad

THE DAYS are long gone when, as legend has it, the wool textile manufacturers of Biella used to stamp "Made in England" on their cloth in order to win business abroad.

"As all good students, let's say that we've at least equalled our teachers," says Mr Renato Roj, the chairman of the Biella Industrial Union, which represents the region's 5,000 local companies, two thirds of which are in textiles or textile-related businesses.

Many of his colleagues in the region — which accounts for over a third of Italy's woolen textiles production and is the country's undisputed centre for top-quality mens' wools — would go much further.

For the region's manufacturers have reached the stage where "Made in Biella" carries as much, if not greater, weight than the once-famous names of the Bradford, Huddersfield and other mills they so wanted to emulate.

Today, the Biella region accounts for 70 per cent of Italy's production of combed wool textiles, 45 per cent of its worsted spinlines, 30 per cent of its woolen spinlines and 23 per cent of the looms.

More materially, that trans-

lates into an unemployment rate of just 3 per cent, and the highest female employment figure in all Italy. The area has the country's sixth highest per capita income.

Biella's prominence has stemmed from a mixture of luck, enterprise and tradition. Its climate and location at the north-western edge of the country beside the Alps, have provided the right mix of humidity, clean air and plentiful water to establish a role in textiles which some date back to Roman times.

But Biella's industrial ascendancy stems from more than just canny entrepreneurship. Rather than aiming for vertical integration, the local textile industry adopted a specialised approach which remains its hallmark today.

Instead of being a source of weakness, specialisation has contributed to the region's reputation for fine goods as small family firms have devoted

themselves to developing their expertise in specific stages of the production process.

"Biella has been able to offer something extra in every phase of textiles making," says Mr Enzo Vizzari, the director of the Industrial Union.

Luck has also played a part in Biella's rise to prominence. Although it is Italy's focal point for top-quality wools, it is one of three centres in the country, with Prato and Vicenza, for the wool textiles.

The fact that Biellese manufacturers opted for combing rather than carding — the method of production used in Prato — worked to their advantage.

For while carding produces a heavier weight cloth, combing is the only way to make the lightweight woolen fabrics which have become increasingly important to designers and manufacturers around the world.

The change in fashions has

put the onus on Biella's yarn makers to produce ever thinner threads capable of creating the new lightweight wools.

Moreover, yarn makers have also been obliged to come up with a wide variety of mixtures, such as wool and silk and wool and cashmere, in order to meet the market's demand for increasingly sophisticated clothes.

Fierce competition between the region's companies has undoubtedly been a key element in keeping it at the forefront of the textiles industry. For despite a brief shift towards vertical integration in the 1960s, specialisation, based on the tradition of small-to-medium-sized family companies, remains characteristic.

Biella, the biggest of the local textiles groups, employs only 800 staff. It is followed by Zegna and Botto, with around 550 employees each. Thereafter come 18 companies with between 250 and 500 employ-

ees, and 50-odd firms with 100-250.

After that, the average size drops sharply. The vast majority of Biella's textile firms are much smaller concerns, often employing 10-15 people. And none of its groups, irrespective of their size, is publicly-quoted.

The weavers and yarn makers which dominated the region have given birth to a variety of other, textile-related businesses.

Textiles machinery is the most prominent, with the region housing a number of the country's top names. Other firms, like Mr Roj's own Roj Electrotext, make the sophisticated electronic control processes that make the machines work.

Despite its thriving entrepreneurial spirit and obvious wealth, Biella has some problems. Most prominent at present are the three confronting many yarn producers which are facing a financial squeeze

as a result of the collapse in raw wool prices.

Despite having bought dearly in previous seasons, the yarn makers have been obliged to cut their prices to levels based on the current depressed rates for raw wool. That has created a painful pincher movement that led one firm to close last year.

"It is only a one-off process, and yarn-makers make will make windfall profits again if raw wool prices move up again," says Mr Giorgio Frignani, chairman of the Vercelli Chamber of Commerce and a well-known yarn producer.

Biella's other problems are all longer term. Although Turin Polytechnic — one of Italy's leading centres for science and engineering — has now set up a textiles branch at the Città degli Studi, most of Biella's youngsters still have to leave the area for their tertiary education, creating the danger of a growing skills shortage.

Whatever the short-term difficulties now being felt by the yarn makers, persuading the youngsters to stay on may be one of the region's biggest challenges in the longer term.

Haig Simonian

## The mood darkens



Adolfo Battaglia

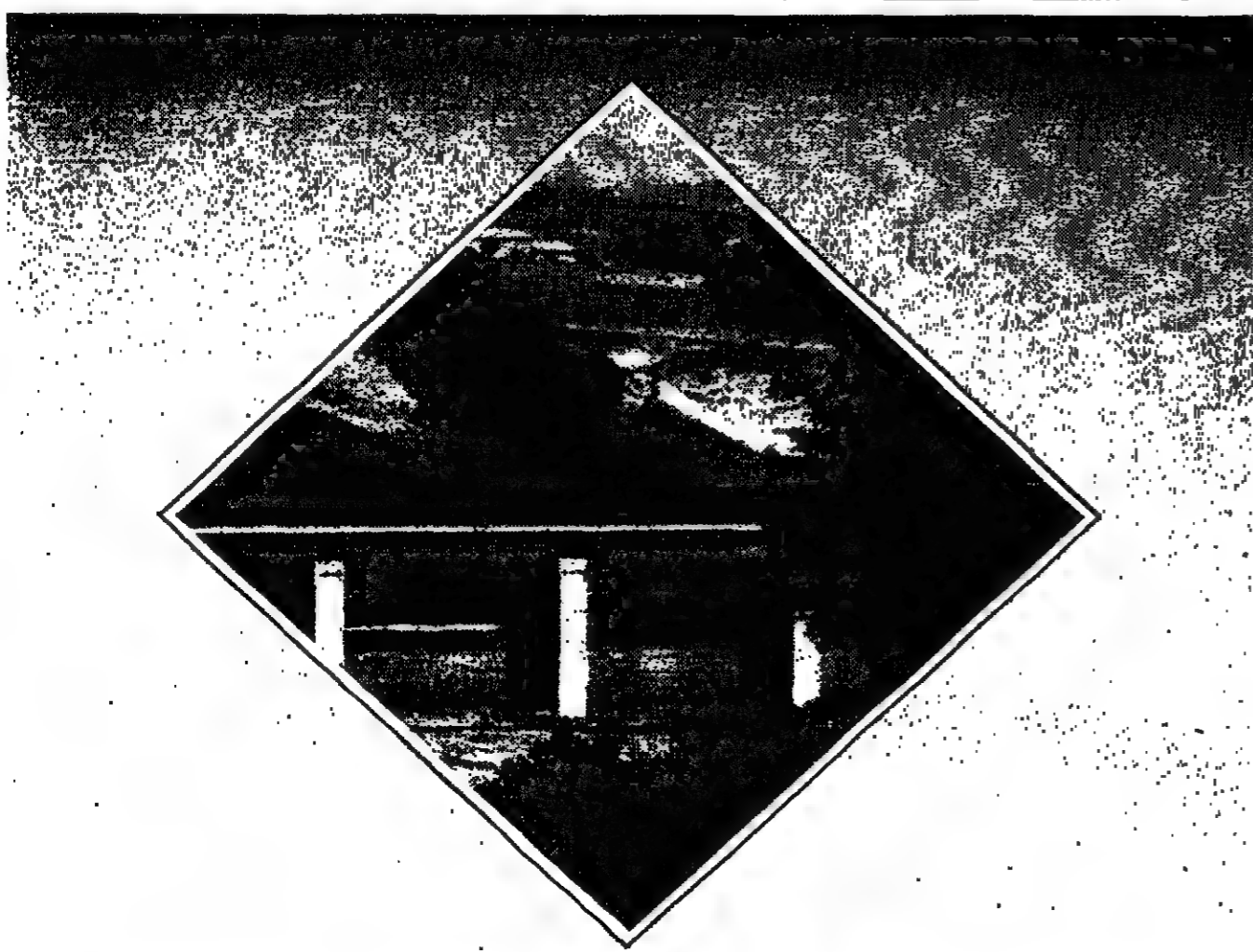
Continued from Page 1  
The survival kit contains lashings of balm for placating the Christian Democrats' principal partner, Mr Bettino Craxi and his Socialists, and sustaining the Andreotti fusion.

The result is a focus entirely on the short term which stokes up private sector wage demands by delivering wage increases for public employees around 40 per cent above those decreed by the government's public spending strategy, appointments to public companies and banks aiming more at

political subordination than managerial professionalism, and, above all, the avoidance of conflict with powerful social groups such as the trade unions.

While one does not have to accept all of the case which Confindustria makes about a serious underlying decline in industrial competitiveness, the government has barely lent an ear to the problem. When Confindustria earlier this year rather clumsily tried to force a confrontation with the unions which would do away with the scale mobile system of wage indexation, there was no support and very little understanding from the government.

It intervened instead to shelve the issue until next summer and it will certainly not be addressed then if there is an election in June. If Confindustria's expectations of industrial crisis are fulfilled, then there will be a grudging political response on this and possibly broader issues of industrial organisation and ownership. If not, then it will be politics as usual in Italy.



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## ITALIAN INDUSTRY 4

John Wyles looks at Italy's key challenges. Below, industrial leaders give their views

## Is Italy becoming less competitive?

IF ITALY were anything other than a country with proven powers of recovery, a cool hard look at the facts would suggest that its industrial sector was set to struggle in the 1990s because of declining competitiveness.

On almost every front, it could be argued that the factors which have enabled the country to export its way out of troubles induced by rising oil prices in the past are either no longer adequate or are fast disappearing.

At the same time, the structural weaknesses in the balance of payments, built on large permanent deficits on the energy food and chemicals balances, have not been remedied. On the most pessimistic scenario, the result in the future could be worsening balance of payments and some shrinkage of the industrial base.

In the next few years, industrial companies will not have the facility they had in the late 1970s to cover their cost increases by frequent devaluations. This luxury began to fade from 1979 when the lira became part of the European Community's Exchange Rate Mechanism, albeit with a 6 per cent margin of fluctuation. This provided a disciplinary framework which induced labour shedding and the application of new technologies

which in turn restored competitive strength in world markets.

During most of the 1980s incremental productivity gains were sufficient to compensate for relative cost disadvantages which derived both from a strengthening of the

## There is little further scope for productivity gains from manpower reductions

lira in real terms against both the US dollar and the German mark and also from higher increases in the cost of labour and other inputs, amounting to about 3 per cent a year more than Italy's main European partners.

All industrialists are now agreed that there is little further scope for productivity gains from manpower reductions. "Unlike at the end of the 1970s we don't have the same

capacity to regain productivity through reorganisation of the factories and better labour practices," said Mr Carlo de Benedetti, the president of Olivetti.

However, according to Mr Stefano Micossi, head of research at Confindustria, the industrialists' organisation, the costs differential remains and is being exacerbated by the exchange rate. In the past year, the lira has appreciated by 12 per cent in real terms against the dollar and by 20 per cent against the yen.

With the lira's entry into the narrow 2.25 per cent band of the Exchange Rate Mechanism and the European Community setting down the path to fixed exchange rates, Italian exporters can expect little or no relief from currency changes. Nor, says Mr Micossi, will incremental improvements in the application of new technologies be sufficient to compensate for the 3 per cent differential on costs with Italy's main trading partners.

In the meantime, declining com-

petitiveness is manifesting itself in many ways. Many textile companies are maintaining their export markets at a loss, and this will surely bear on 1990 profits, and Confindustria surveys are revealing similarly painful situations in other sectors.

"It is not imaginable that we can continue like this," says Mr Micossi. His analysis of trade patterns is showing a consistent decline of market share in Germany - Italy's main trading partner - while last year's relatively rosy export figures based on a 10 per cent growth in supplies of goods and services was due more to higher demand from outside Europe for traditional Italian products such as leather goods and jewellery.

According to Confindustria, the competitiveness squeeze is now showing up on the trade balance in two ways. One is a significant increase in imports of semi-finished products which reflects a growing trend among small and medium-sized producers to base their manufacturing

off shore.

This is not so much a matter of them making direct investments overseas but of buying product from low cost centres, increasingly in eastern Europe and Asia.

Clothes are now being made for Italian producers in Hungary and Yugoslavia and jewellery in Hong Kong. Domestic shoe production has been steadily falling while exports have increased - because of offshore manufacturing.

If it continues, the effect will be to systematically reduce the industrial base," Mr Micossi says. He believes that January-June 1989 improvement in the trade deficit compared to the same period last year is misleading and due exclusively to an improvement in the terms of trade.

Measured in volumes, imports grew at a faster rate than exports - 5.9 per cent against 5.5 per cent - especially in ferrous metals, chemicals, energy products, engineering products and transport and textiles

equipment.

Confronted with what may be a structural problem, what is the government doing?

According to Confindustria, very little apart from making the situation worse. It is awarding exor-

## The only consolation for exporting is that the future looked as black ten years ago

tant pay rises to its own employees - close to 30 per cent over three years - which stimulate equivalent expectations in the private sector, producing annual budgets which are incapable of reaching their targeted deficits and, therefore, of reducing interest rates, and it has loaded industry with an extra 130,000bn of social security obligations over the past three years.

In the meantime, there has been

no discernible improvement in the quality of telecommunications and transport services which industry claims impose real cost penalties on the export effort.

Confindustria received no significant political support when it sought earlier this year to push the unions towards abandoning the social wage indexation system which covers against around 45 per cent of inflation.

The present government solved the problem by walking away from it, encouraging both sides of industry to sit down to address the future of indexation in June of next year.

The only caveat against excessive pessimism about the future of Italian exporting is that the future looked just as black ten years ago. Granted that the scope for productivity growth through manpower reductions is now a great deal less, the facility which Italian industry has displayed in the 1980s for quickly applying new technology and producing higher value added products for traditional markets has not vanished.

Flexibility and entrepreneurialism still reigns in the private sector. But it does need the help of a great deal more efficient and effective government than is currently on offer, or really foreseeable for the future.

## Sales increase

WHILE ITALIAN exporters of conventional machine-tools have been faced with declining competitiveness, the same can not be said for the more sophisticated area of the sector, that of production systems.

"The Italian firms that belong to the latter group are instead likely to soon be third in the world after Japan and Germany," says Mr Gian Carlo Mandelli, president of the Mandelli Group of Piacenza, one of Italy's leading robotics firms with total sales of L160.5bn (up from L142bn in 1988) of which exports represent roughly 50 per cent.



There has been no decline in the group's competitiveness on foreign markets over the past year. Thanks to the company's high-level of investment in research and development, says Mr Mandelli, its products are sophisticated enough that sales to high-technology countries such as Germany have normally increased.

Rising labour costs are a problem for many Italian companies but Mandelli has an advantage over many of them. "Given that our systems of flexible automation for the most part have been developed to contain manpower costs, and that we ourselves use our own products, we are less affected by certain problems tied to the cost of labour," says Mr Mandelli.

However, the company has had to face pressure from other costs and has been successfully able to avoid raising prices only by significant structural re-organisation. "Compatibility with the changes in the world

inflation rate, our prices have thus remained substantially unaltered," he adds.

According to Mr Mandelli higher prices of raw materials and imported semi-finished products have had little impact on the company. The same goes for the exchange rate, which has affected the company only in the dollar area. One particular problem is that of labour costs regarding white-collar workers and researchers, according to Mr Mandelli, 54-year old chief.

"In our sector, in fact, manpower is highly qualified with sizeable gaps between supply and demand. But, I repeat, these are all factors that have been easily absorbed and which have in now way touched our competitive position."

Mandelli increasingly views its clients, domestic and foreign, as part of a single market. "It is therefore difficult, if not impossible, to specify in which foreign markets we have felt the most competitive pressures," he says.

For the Mandelli group, the outlook is definitely rosy. "Thanks to our policy of concentration and synergies among our companies, some of which have been newly acquired, we are confident that we will be increasing our share of the world market."

However, a more dynamic industrial policy by the Italian government would be appreciated, particularly with regard to support systems and incentives that are currently non-existent or not easily accessible. If the business support systems that are available in other countries of the EC were to be introduced, Italian firms would find it much easier to penetrate world markets.

Sari Gilbert

## High cost to strong lire

THE OVERALL trade balance of the first eight months of 1990 shows that Italy is running a smaller deficit than that registered in the same period of last year. In other words, says Mr Angelo Fornasari, Olivetti group vice-president for administration and finance, despite the unfavourable exchange rate, Italian exports as a whole have grown faster than imports, probably largely because of a slow-down in domestic demand and the consequent necessity to use productive capacity for export.

However, he points out, the situation is different in the field of electronic information systems. Since their products are geared primarily to highly industrialised countries, exports in this sector, and thus Olivetti exports, are particularly sensitive to exchange rate fluctuations.

This has been particularly true over the past eight months, during which the lira has been valued by 11 per cent against the US dollar and by 18 per cent against the Japanese yen.

Inflation, he says is higher in Italy than in most other industrialised countries. This means Italian exporters must bear higher local costs and exchange rate effects which, rather than neutralise the differences between inflation rates, move in the same direction.

These external factors have doubtless represented negative elements in the competitive position of Olivetti, which last year registered total sales of 9,031bn lire (up from 8,407bn in 1988) and saw exports account for 63 per cent of total revenue. On the other hand because of its efforts in increasing research and efficiency, and in lowering costs, the company has been able to maintain a

"good commercial performance" abroad.

Cost inflation in Italy has caused some exporters to raise prices. But "we have highly competitive products are involved, the pressure of costs cannot be passed on to the prices of highly competitive products."

This is even more true given the fact that countries like the US and Japan, who are benefiting from the favourable exchange rate ratios, can come on to the European market with very competitive prices. The greatest competitive pressure for Olivetti has come, in fact, from the US and other



highly dollar-sensitive countries, says Mr Fornasari. This is a result of both the devaluation of the dollar and the significant decline in US domestic demand.

To meet this competition, Olivetti must offer increasingly competitive electronic systems and computers and, at the same time, continue its attempts to reduce internal costs through increased efficiency. Like most other companies, Olivetti views the

high cost of labour, and its hefty and periodic increases, as a particularly heavy burden.

One of the major contributing factors to this cost is the high level of obligatory social security payments, which amount to about 50 per cent of the total pay packet. "It should also be said," adds Mr Fornasari, "that the 'Italian system', that is, the country's service network, has not yet reached the desired levels of efficiency, a factor which inevitably causes negative effects on company costs."

The company's competitive position could be improved by greater sensitivity on the part of Italy's political parties and unions. The modernisation of the public administration, says Mr Fornasari, would be extremely beneficial.

In addition, all of Italian industry would benefit from a less rigid concept of labour use and a wage policy sensitive to exporters' needs. However, Olivetti is confident that its increasing commitment to research and its attempts to improve internal efficiency - including through personnel reductions - will enable it in coming years to increase its market shares in Italy and in the major countries of Europe.

Sari Gilbert

## Pressure intensifies

OFFICIALS AT the Fiat Mirafiori automobile plant in Turin are convinced that the competitive position of Italian exporters is being penalised by the combined action of inflation and the currency exchange rate.

After all, says Mr Gian Paolo Massa, head of Fiat Auto's strategic co-ordination department, when it comes to inflation there is a structural differential of three to four points with respect to west Germany and of one to two points with respect to the European Community average.

At the same time the lira is firmly anchored to the German mark and therefore the exchange rate does not compensate for the inflation differential.

Because of this, during the course of 1990, Fiat's competitive position continued to worsen. "Domestic costs have been growing at a greater speed than those of our competitors," says Mr Massa. Fiat Auto, which last year registered total sales of 22,888bn lire (over L20,263bn in 1988), is trying to further improve its position in Europe.

"But there is no doubt that on the marketing front there has been a general intensification of competitive pressure through a price war that is still in progress." For this reason,

the company, which sells 40 per cent of its cars abroad, has been unwilling to pass its higher costs on to the consumer.

"An out-and-out transfer of the added costs would have led us, in Italy and abroad, to lose competitiveness vis-à-vis our competitors, who are subject to less cost pressure," Mr Massa adds.

Fiat attributes the worsening state of its competitive position primarily to domestic factors, in particular to the high labour costs and to the hefty social security contributions that the state collects from business

sales efforts in an ever-increasing range.

The result is that all European markets are under extreme pressure and it is increasingly difficult to achieve or maintain a position of clear supremacy, such as that which most car makers still hold in their home countries.

What factors could help to improve Fiat's competitive position during the next 12 months? Fiat would be happy to see a devaluation of the lira, which would recover at least a part of the losses of the past two years and thus improve the position of Italian exporters.

But the giant car maker, whose principle objective is that of improving its position on foreign markets, would also like to see an alignment of the Italian system of price formation with that of the EC.

The company, which recently put thousands of workers on temporary short-time to reduce its stocks, is trying to cope with the situation by improving internal efficiency and productivity.

But, says Mr Massa, "it is primarily cost pressures on the labour front which constitute a further push towards the loss of competitiveness."

Sari Gilbert



## TOURISM

## Export earner suffers

IS ITALY about to lose its number one standing as the world's most popular travel destination? After a near-collapse in 1989 and a highly disappointing summer, this is becoming a serious concern.

Not just for tourist operators but for economic planners long accustomed to relying on the sector as an important export earner and the principle invisible item in the balance of payments.

An ongoing decline in the tourism account's net "surplus" - the difference between foreign currency earnings from tourism in Italy and foreign exchange expenditures by Italians for travel abroad - could create balance of payments difficulties.

Over the past five years that surplus has declined drastically, from over 12,000bn lire in

1985 to 7,151bn in 1989. The reason? An increasing number of Italians have been travelling abroad, and spending more when they do so. Competition from other Mediterranean countries has been increasing.

And, observers agree, the government has failed repeatedly to come up with either a genuine strategy for expansion or an effective system of marketing.

According to Mr Francesco Colucci, president of Confindustria's tourism confederation: "The rationalisation and modernisation of the national tourism system requires a drastic turn-about in the government's attitude."

Total revenues of the Italian tourism industry amount to some L80,000bn a year, the equivalent of over 5 per cent of GDP. But the past three years have seen a sharp drop in foreign exchange earnings.

Recent statistics indicate that 1989 will not be a good year either. According to figures compiled by the Federation of Italian Hoteliers (FAIAT), between January and August the occupancy of Italy's 38,000 hotels increased by only 1.5 per cent compared to the same period of the previous year.

For many tourism operators in Italy the world soccer championships represented a particularly sharp disappointment. Hotel bookings in that period increased by only 0.1 per cent.

Figures for the rest of the summer only added to the gloom. In July and August the number of foreign visitors dropped sharply, respectively by 7.8 and 14.2 per cent. West Germans (the biggest single group of Italy-lovers), Belgians and Britons were the principal defectors.

But Americans, Canadians and Japanese were the only groups increasing in number. The general consensus is that foreign tourists stayed away from Italy during the world cup tournament because of fears of overcrowding, chaos and possible boogalooing.

But why the severe drop in July and August? High prices have served as a deterrent for many, drawn instead to the cheaper accommodation, food and packages in neighbouring Spain and Portugal, Greece, Yugoslavia and, increasingly, Turkey.

And the service in many luxury hotels is often out of sync with prices; about \$300 a night for a single room.

Although labour agitation in the transport sector has eased considerably in the past year or so, many veteran travellers remain wary of strikes.

Museum hours rarely seem in tune with tourist schedules. Restaurants are expensive. And pollution has increased greatly in the country's main cities. A recent survey of 18 cities by the British Tourist Authority concluded that a holiday in Rome was more expensive than in any other European capital except for Copenhagen.

Italy's 38,000 hotels are government-owned is a major cause of the highly-fragmented, still largely family-run industry's inability to compete (in terms of services and price) with rivals in the "emerging" Mediterranean countries; they cite controlled prices, high labour costs, the heavy value-added tax system, tight credit and insufficient incentives for construction as important government failings.

Another problem is that once stay-at-home Italians have become increasingly eager to travel abroad and the Italian outbound market today is considered one of the fastest growing in Europe.

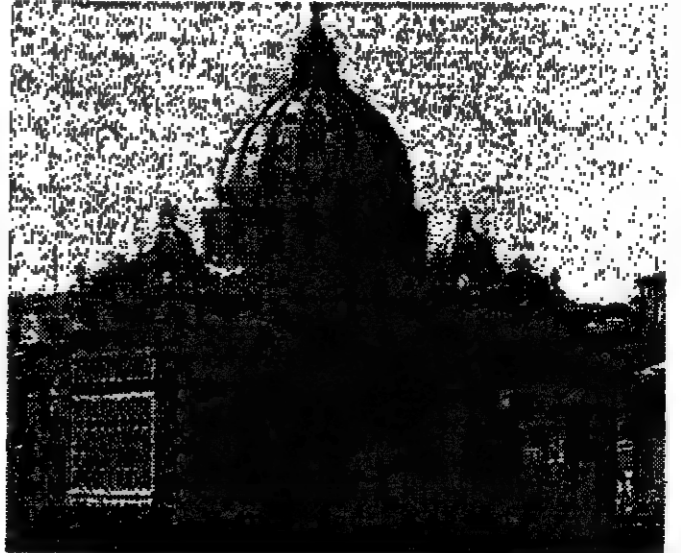
The strong lira and a weak dollar has intensified the

trend. The portion of the population travelling abroad grew by 65 per cent between 1981 and 1985 and is increasing by over 10 per cent a year.

All this has meant a growing cash outflow. In 1989 Italians spent L9,291bn abroad, compared to L4,538bn in 1986.

Sari Gilbert

St Peter's, Rome: tourist revenues have dropped sharply over the past three years while Italians are spending more money travelling abroad



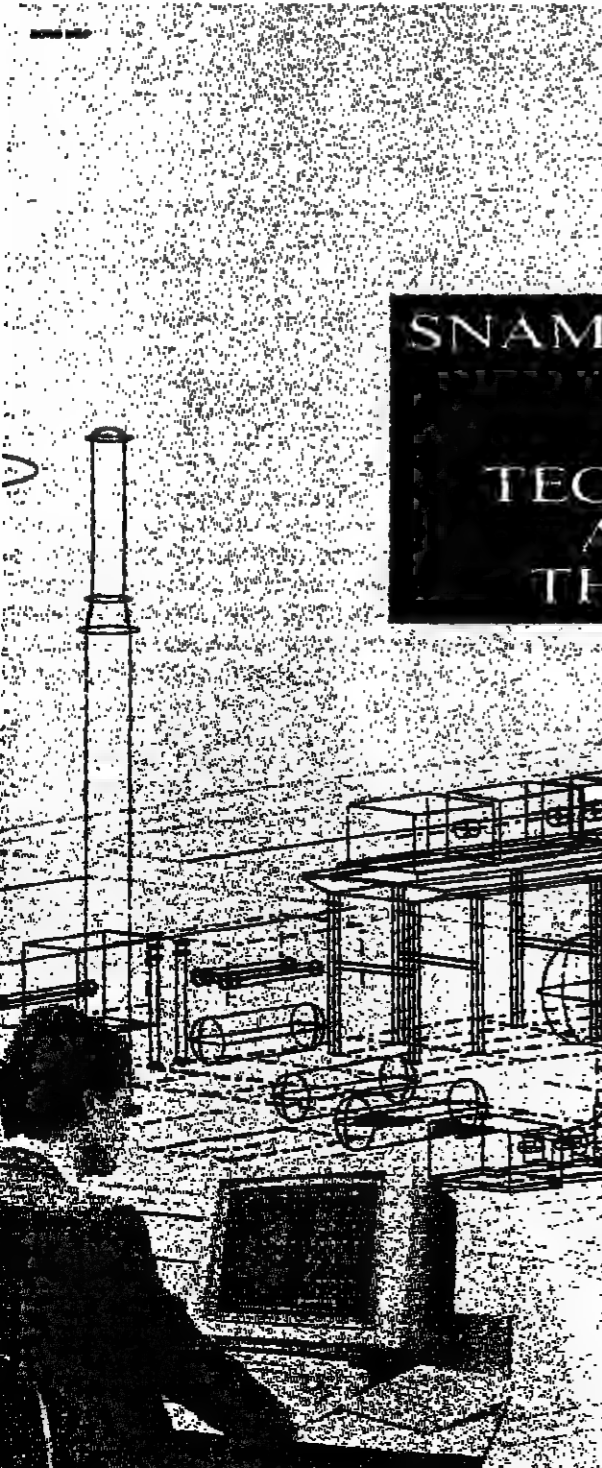
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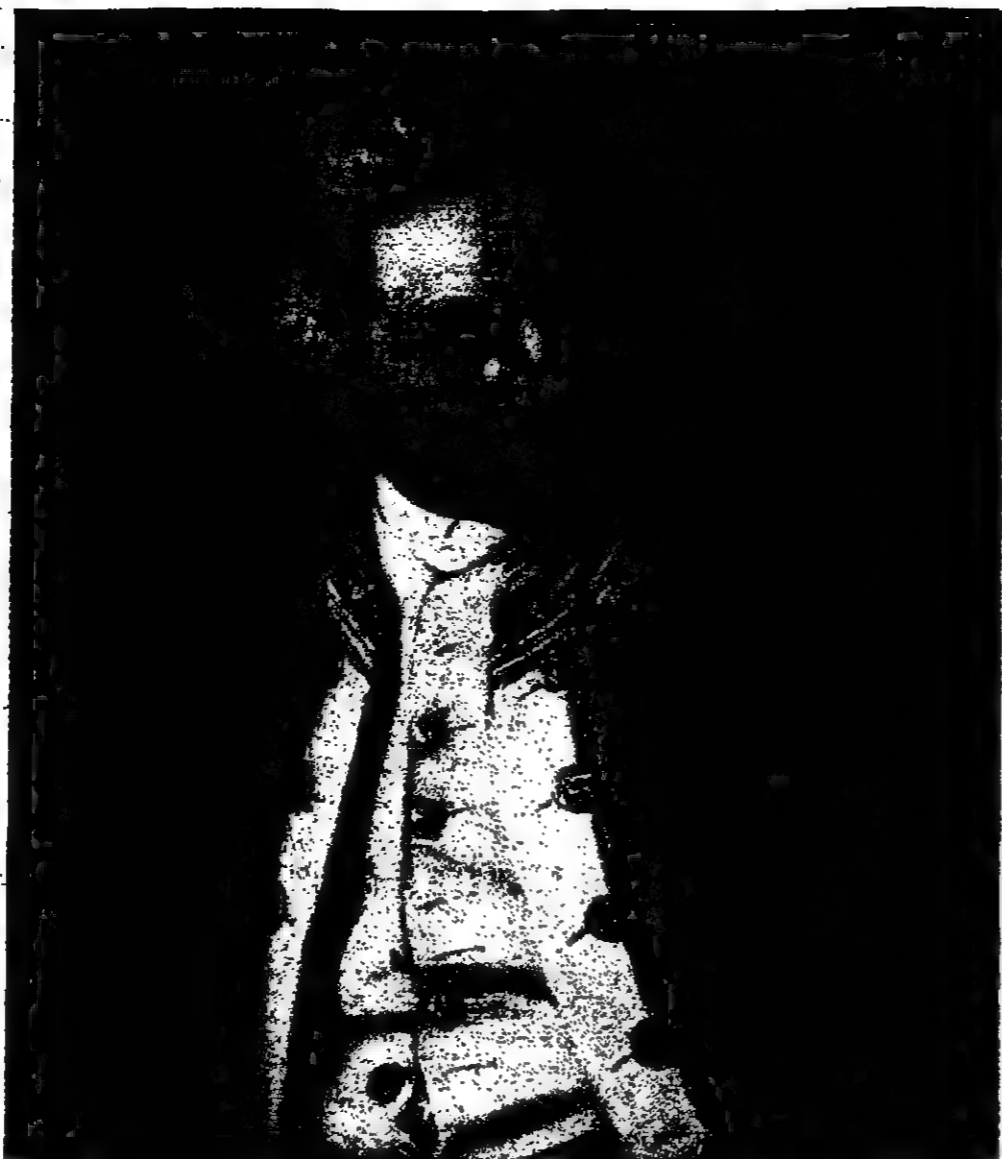


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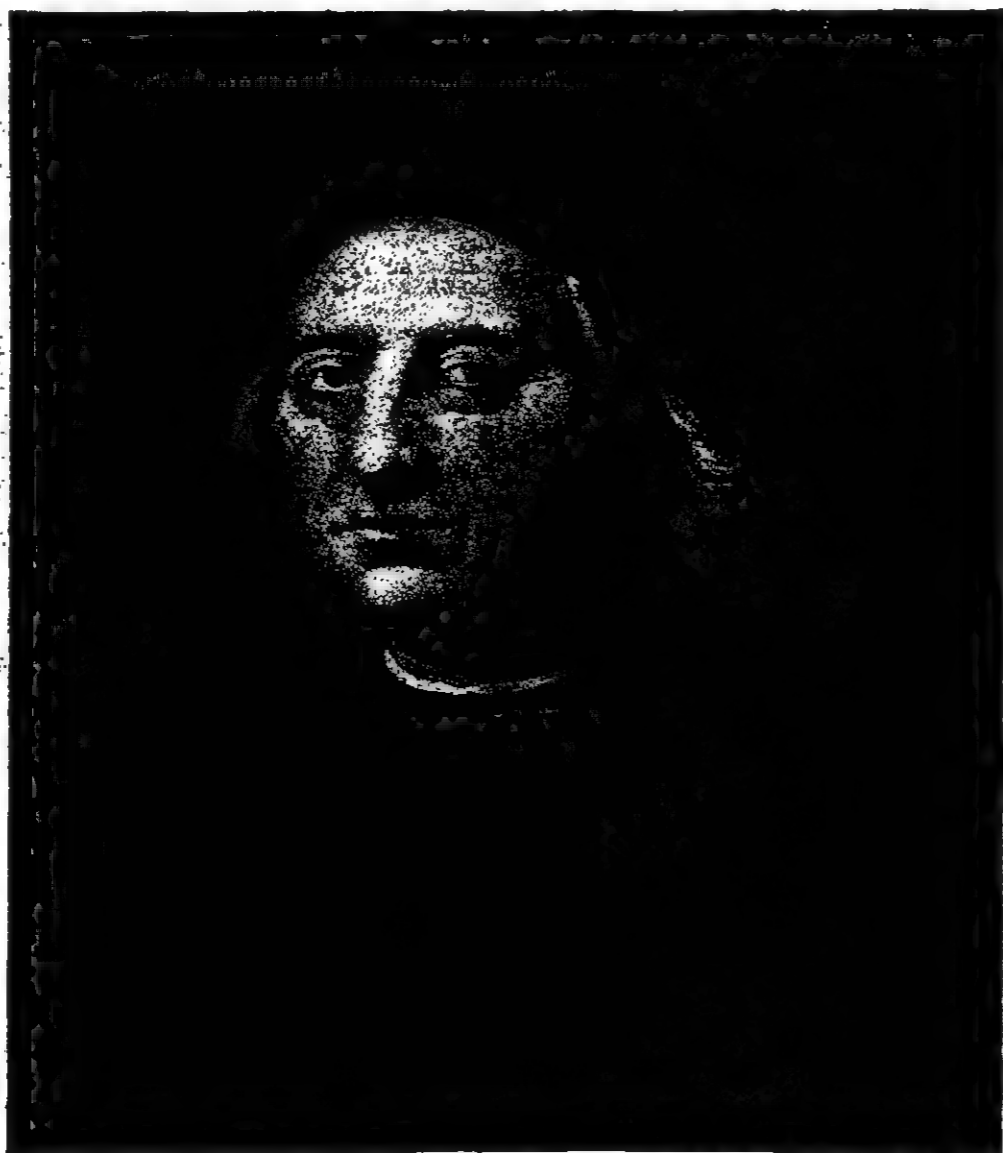
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FINANCIAL TIMES TUESDAY OCTOBER 23 1990



**CAPTAIN COOK  
HAS ACCEPTED THE INVITATION.**



**CHRISTOPHER COLUMBUS  
WILL BE WAITING FOR HIM  
IN GENOA IN 1992.**

GENOA, MAY 15TH - AUGUST 15TH, 1992  
**SPECIALIZED  
INTERNATIONAL  
EXHIBITION  
"CHRISTOPHER COLUMBUS:  
SHIPS AND THE SEA"**



Christopher Columbus, a Genoese, discovered the New World in 1492. At the time it represented a profound expansion of human knowledge. Made possible by a combination of iron will-power and thinking years ahead of its time. Five hundred years later, in 1992, to mark the fifth centenary of his triumph, a Specialized International Exhibition is to be mounted. Entitled "Christopher Columbus: Ships and the Sea". And, appropriately enough, it is to be held in Genoa. As the great maritime civilizations meet to celebrate and illustrate the story of seafaring. And to look forward to the future. Exploring the latest ideas, projects and technology. Among the participating countries is Great Britain. A nation so rich in marine tradition and culture could not possibly afford to miss out. The site for the exhibition will be Genoa's Old Harbour. A recreation of the unique structures of the ancient port. Designed by architect Renzo Piano and developed by the Iri Group Company Italimpianti the project will rebuild the "heart" of the town. Bringing Genoa closer to the roots of its ancient civilisation. In addition the whole complex will serve, after the exhibition, as an important multifunction centre for the town. 1992, therefore, is an important date for all the seafaring nations of the world. One they cannot afford to miss. As they meet on the threshold of the next millennium to forge a new bond between man and sea.



**COLUMBUS 1992:  
THE PROTAGONISTS OF THE SEA MEET IN GENOA.**

## ITALIAN INDUSTRY 6

Italy trails behind the rest of Europe in the privatisation process

## The flame flickers dimly

DESPITE THE potential revenues which could make a helpful contribution to cutting Italy's mountain of public debt, despite growing pressures from the European Commission to curb current levels of industrial subsidies and despite the inadequacy of so many public services, the flame of privatisation flickers even more dimly in Italy than it did just two years ago.

The reasons are more varied than is often supposed, but the most important ones derive from the reluctance of the Italian political class to surrender significant controls over sectors which accounts for something like a third of economic activity in Italy. More precisely, the public holding companies, whose political master is the Ministry of State Shareholdings, are vital adjuncts to the powers of political parties.

They are sources of finance, services and employment for the dominant regime of Christian Democrats, Socialists, Republicans, Social Democrats and Liberals who have populated Italian governments for the past 40 years.

The public sector credit institutions, which control more than 60 per cent of all deposits, provide money for politically inspired public works of dubious or non-existent economic value. They fund private sector projects carrying a suitable political sponsorship and they provide money for a variety of party activities, including the extraordinary number of conferences which erupt in Italy on most days of the week.

The banks will also, it seems, reward friends and punish enemies. Or so Mr Raul Gardini, the president of Ferruzzi, is letting it be known. He claims recent decision to sever all business links with Banca Commerciale Italiana, hitherto regarded as one of the institutions less in thrall to the politicians, was prompted by the conclusion that BCI was taking

sides against him in his battle with ENI, the state holding company, for control of their chemicals joint venture, Enimont.

Italy is not the only country in Europe where the parties, through their placement, reach deep down into the economy. But there may be no other country where the phenomenon is so widespread and so frequently a threat to the public interest. Although some party nominees to senior management positions in the public sector are professional and honest, they are allowed to operate as protected species in a host of sectors where the public monopoly enjoys public protection.

Telecommunications services, air and rail transport and energy supply are three high profile sectors where legal barriers to entry prevent the development of any significant competition from the private sector. There are many others where informal barriers are erected through the public administration or local regulations which achieve the same result. In the absence of market pressure to compete, there is only partial and inadequate public pressure to do so.

The capital injections from the State into the public holding companies - the so-called *fondi di dotazione* - are not supplied at anything approaching market rates. However, budget pressures have significantly reduced the *fondi di dotazione* cover of public companies' investment from 71 per cent in 1983 to 10 per cent last year. This has helped to worsen the ratio between their debt and their share capital to nearly 220 per cent in 1988 compared to 89.9 per cent average for the private sector.

Another explanation for the worsening of financial ratios in the public sector is the government's reluctance to allow price increases for public services. Although the railways are now set for increases of up to 30 per cent over the next year, airlines, telecommunications and motorways have had applications for price increases in the pipeline for years.

If the provision of infrastructure services was not so manifestly inferior to western European averages, the public

might be lulled into believing that price stability was an indicator of growing efficiency.

The search for capital has forced the public holdings to seek private funds through the sale of minority shareholdings. Between 1983 and 1988, IRI raised an estimated L12,000bn through stockmarket offerings, but little more than 20 per cent of this derived from full privatisations.

The unwritten political rule which has emerged in the past year or so forbids the cession of majority control of any business of industrial significance or financial size. One reason

**In the short term, it now seems highly unlikely policy will change**

why the Enimont saga has become a prominent political cause in the general consternation caused in Rome when it was discovered that Mr Gardini's Montedison could win management control on the basis of the same 40 per cent stake that was held by ENI.

It did so by forging an alliance with sufficient third party shareholders to give Montedison control of a bare majority of the stock.

It is still too early to assess the broader significance of the Enimont case. The government's formal position is that it is prepared to allow the full privatisation of the joint venture if Mr Gardini will pay ENI's asking price for its holding.

In fact, it may have been attached such conditions - including observance of a business plan agreed in 1988 which Mr Gardini believes to have been overtaken by events - as to push the Ferruzzi president into a corner.

Alternatively, there are those that believe Mr Gardini is trying to provoke such an outcome because he wants to sell his stake to ENI.

However it unravels, the Enimont story has become an appalling advertisement for public-private collaboration in Italy when the sector involves sensitive issues of investment and employment. Opinions vary about the true basis of the

conflict, but there seems little doubt that an important factor was Montedison's desire to run faster in restructuring the business and on closing out of date plant than its public partner was ready to contemplate. In short, political resistance to creating unemployment was clashing irreconcilably with more entrepreneurial judgments of the requirements of the market.

In the short term, it now seems highly unlikely that there will be any change of policy on privatisation in Italy. Where once there was some pressure in this direction from the top of IRI and ENI when the two professors, Prodi and Reviglio were in charge, their successors show no signs of wanting to confront their political masters.

The ever worsening budget deficit is the only element which could cause a change of political heart. The minority of leading politicians - Mr Nino Andreatta, the Christian Democrat chairman of the Senate's budget committee, Mr Adolfo Battaglia, the Republican minister for industry and his party leader Mr Giorgio La Malfa - who favour privatisation have been trying to make the most of this, but to little avail.

Mr Guido Carli, the DC treasury minister, the leading advocate of privatisation inside the government, included proposals to sell off some state property in his 1990 budget proposal, but these were stripped out in parliament and made into a separate bill which is now trapped deep in the procedural quagmire.

External pressures may be more helpful. The European Commission could make the maintenance of the state sector more difficult by building a tighter ring fence around public subsidies. Finally, Italy has just equipped itself with an anti-trust law whose provisions on concentration and abuse of dominant market position also apply to public companies.

But its potential effectiveness has been at least halved by a clause which specifically excludes its application to public monopolies required by law to provide services "of general economic interest".

John Wyles



Franco Piga

ing that savers clearly prefer to put their money in the huge supply of government notes and bonds issued every year to finance the budget deficit because of the attractive interest rates which are available.

Mr Piga does, however, want to see the development of a coherent privatisation policy. It begins, he says, by clearly identifying in general terms which activities the state has an interest in maintaining its presence.

In the cases of share flotations, it must be clear that the market is able to absorb a heavy supply of shares. In possible reference to the Enimont disaster, where ENI (public) and Montedison (private) have failed to cohabit in a publicly quoted joint venture, he asserts that assets sales "without clear structural rules" can lead to conflict.

He says that public companies which have floated minority stakes on the stock exchange are now generally yielding up to or above the market average, having failed to do so until about two years ago. Nevertheless, their Price/Earnings ratios remain below the market average, suggesting that even on equal terms "the market puts a lower value on companies with state shareholdings".

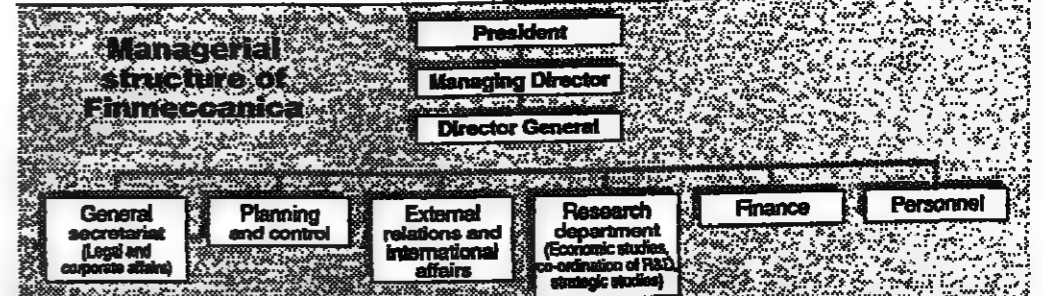
Turning to which sectors might be appropriate for privatisation, Mr Piga gives precedence to property either owned by the military or by communes and to possible joint ventures with the private sector which would control some of the cultural and artistic stock owned by the state.

He also believes that the state should maintain its presence in high technology sectors, services and infrastructure, available in large industrial groups, suggesting the state requires these groups to fulfil its mission in the south of Italy which needs technology to develop telecommunications, roads, water supplies and natural gas distribution.

John Wyles

## PROFILE: FINMECCANICA

## Simple structure dominates



IRI, ITALY'S GIANT state holding company with annual sales of L5,000bn and hundreds of subsidiary companies, looks at first sight like a management nightmare.

However, since its launch in the early 1930s as a lifeboat for Italian companies and banks which were sunk by the great depression, it has evolved a relatively simple structure based on sub-holdings which act as its management agent for groups of subsidiary companies.

Finmeccanica is one of the most interesting of IRI's holding companies because its relatively small number of 21 main subsidiaries have expanded rapidly on the international scene during the past few years with the aim of establishing the company as the IRI flagship for a range of advanced technologies.

With its headquarters on a hill above the Tiber 20 minutes to the north of Rome city centre, Finmeccanica is the parent company to Aeritalia, Italy's main aerospace manufacturer, Ansaldo, which makes heavy electrical engineering and transport equipment, Selenia and Elsas, Italy's leaders in defence electronics, and ST, the microprocessing manufacturing joint venture between SGB of Italy and Thomson of France.

About 34 per cent of Finmeccanica's 1990 revenues of \$8.5bn come from aerospace, 14 per cent from defence electronics, 22 per cent from energy and the environment, 13 per cent from industrial systems and automation, 7 per cent from transportation and 7 per cent from the manufacturing of micro-electronics.

With its staff of 300 and annual turnover in 1990 of \$8.5bn, Finmeccanica is organised in such a way as to provide a range of services to its companies and to monitor and control them. In some cases, these centralised services overlap with those that the subsidiaries carry out for themselves but they are administered flexibly and without excessive duplication of the effort involved.

The financial function at the centre involves corporate finance and administering financial cash flows of around \$2bn a year.

Finmeccanica also offers customer financing services for aircraft and other large purchases. The chief managerial role in the company belongs to managing director, Mr Fabiano Fabiani. Mr Fabiani is appointed by IRI and whose previous experience includes journalism and a spell as a manager at the IRI national television corporation.

Finmeccanica's responsibility to IRI is to implement a rolling annual corporate plan which is jointly agreed between them. IRI's expectations are set out in an annual letter and, says Finmeccanica, are more "qualitative than quantitative".

Finmeccanica translates the IRI objectives into detailed directions for its companies which respond with individual corporate plans. These, in turn, are consolidated into a Finmeccanica plan which goes back to IRI.

The group plan sets detailed objectives covering market shares for the various businesses, financial ratios and capital requirements. Finmeccanica says financial targets are as rigorous as those of any private company and, in recent years, individual financial performances have been broadly in line with comparable private

sector businesses.

"However, we do more in house than the domestic competition, we are more verticalised, so we have lower sales per employee," says the company.

Formally, there are clear rules which determine the freedom of action exercised by Finmeccanica. It is able to buy or sell minority stakes in companies without prior approval but acquisitions and divestments have to be approved by IRI and the Ministry for State Shareholdings.

This process is not always cumbersome or time consuming. In the case of the sale of Alfa Romeo to Fiat at the end of 1986 everything was done in the space of 26 hours during which the Finmeccanica, IRI and Alfa boards all met and formally communicated their decisions to each other in writing. The minister of state shareholdings wrote to the appropriate interministerial committee of ministers which then met in order to give a formal directive to IRI which was then passed on to Finmeccanica.

But Finmeccanica concedes that it has less flexibility than a private company. "If there is a consensus we can move quickly. But we have a public owner and the state does not behave like a private shareholder by just turning up at an annual meeting once a year."

This is something of a modest understatement given the political interference which complicates the management

of public sector companies. It is particularly true when it comes to privatisation and the reshuffling of assets between the three main public groups, IRI, ENI and EFIM.

Alfa Romeo has been the only significant Italian privatisation of recent years and was more a product of a desperate realisation that the company's losses could only be stemmed if it became part of a larger automotive group.

Elsewhere Finmeccanica's development strategies have undoubtedly been disrupted by the difficulty it has had in winning political approval.

At an informal level contacts between managers at Finmeccanica and IRI are intense and frequently daily. Those between Finmeccanica and the management of its subsidiaries are even more intense. "We do exercise closer control over them than IRI does over us. We go deeply into a company's affairs, are constantly involved in questions of mergers and acquisitions and we do the medium term financial planning for our companies."

Arguing that "we live in dynamic times", Finmeccanica says that the almost daily contacts it has with top managers in subsidiary companies are necessary to guarantee flexibility and responsiveness. "We believe we give them value for money and there are no complaints of excessive interference."

John Wyles

## The drive to internationalise

WHEN FINMECCANICA sold Alfa Romeo to Fiat at the end of 1986, the relieved group shed a most unhappy role which had dogged its existence for the previous ten years. Sustaining a not too brilliantly managed car company which was too large to be a niche producer and too small to be a mass producer had been a tremendous burden on the holding company's finances and management time. Without Alfa Romeo, however, what was Finmeccanica for?

IRI, then presided over by Professor Romano Prodi, had no problem in providing the solution. Aeritalia, Ansaldo and SGB were core assets within common characteristics: they employed advanced technology in markets of a worldwide dimension in which the competitors were few and large and highly competitive.

Finmeccanica's strategic instruction was to strengthen its companies, and Italian national capacities, by pushing them further and further into advanced technologies.

The task would require a steady process of internationalisation to acquire markets and technology, some of which were reshuffling so as to create what the Italians call industrial "poles" under the Finmeccanica umbrella, careful co-ordination to remove overlapping research and development activities and rather a lot of money.

Four years on, Finmeccanica has made considerable progress, although it has hit some deep potholes along the way and its financial performance would not be regarded as acceptable by shareholders of a publicly quoted company.

Consolidated sales have more than doubled in three years to an estimated \$8.5bn in 1990 while profits have risen from \$60m to \$73m in the same period. Five years ago, only 2 per cent of its employees were based outside Italy, now 15 per cent are, and 20 per cent of sales come from foreign subsidiaries.

But problems have hit the strategy from several directions. While it managed to acquire Selenia, shortly to be merged with Aeritalia, from the STET holding company, a parallel requirement to take hold of Italtel, so placing Italian telecommunications alongside advanced electronics, will receive no political blessing for the time being, if ever.

Political opposition has also frustrated the idea of moving Breda Ferroviaria out of EFIM, the smallest state industrial holding, into a merger with Ansaldo's transport activities.

Fiat's recent deal with CGE of France dealt a further blow to hopes of building a railway equipment "pole" in Finmeccanica.

Fiat Ferroviaria, which until the politicians vetoed it seemed likely to be swapped for the Finmeccanica's Alfa

turines are seen as an essential replacement, not least if Ansaldo is to be part of the agreement Italy has made to buy electricity from the Soviet Union to be paid for through the construction of 16 gas turbine power stations.

But the Gulf crisis has only deepened its problems by blocking, perhaps for many years, fulfilment of power station contracts with Iraq worth L1,000bn, about one fifth of its order book.

In other sectors, the sailing has been rather plainer. Having laid out around \$2bn over the past five years on some 21 acquisitions, including Ferretti Italia, Imcos in the UK, Bailey Controls and Wabco Westinghouse in the US, Finmeccanica has acquired a range of complementary advanced technologies and is deriving around 40 per cent of its sales from segments in which it is among the three or four largest operators in the world.

The process of international collaboration has been carried

forward on a wide front. The microprocessing joint venture between SGB and Thomson of France was an early initiative in 1987 while Aeritalia has developed a large number of production supply agreements with most of the important US and European aerospace manufacturers.

In the meantime, the fusion with Selenia is intended to produce a new force, Ansaldo, which, says Mr Fabiani, will lead to a rationalisation of research and development activities and a stronger commercial thrust from both its component parts.

The Finmeccanica chief forecasts that in five years time, Ansaldo's basic strengths will be built on space technology, air traffic control systems, in which Selenia is already a world leader, and commuter aircraft production alongside the ATR 48 passenger aircraft which Aeritalia is manufacturing with Aerospaziale of France.

The process of international collaboration has been carried

John Wyles

## A symbolic choice

MR FRANCO PIGA's appointment as minister for state shareholdings in July was one of the symbolic choices for which prime minister Giulio Andreotti has become known.

After a long career spent heading the cabinets of a number of Christian Democrat ministers, Mr Piga became president in 1984 of the CONSOB, Italy's stock exchange regulatory authority. He is thus an expert on the mechanics of Italian capitalism with an unusual technical grasp of the potential for privatisation in the Italian economy.

But he is also, now, a politician with public views on the issue that cleave closely to the

prevailing consensus among the political parties.

He does not acknowledge the existence of any political obstacles to the sale of state assets. Indeed he asserts that "in recent times there seems to me to be a clearer will to proceed more decisively with a privatisation process". He has in mind the cautious floating of stakes in the public banks, the government's own proposals to sell some state property and draft laws presented in parliament by political parties "which are distant from the traditions of the market".

The obstacles to privatisation, says Mr Piga, are more technical. He sees in both the public and private sectors a

traditional reluctance among Italian entrepreneurs to expand their shareholding bases. But equally important is the backwardness of the Italian stock market. "This is lacking in intermediation structures, techniques for the making of contracts, and mechanisms for price setting."

His list of inadequacies also includes lack of financial products, thin and therefore unrepresentative trading, insider trading and other manipulations, and lack of proper protections for minority shareholders. He believes key reforms still await the passage of parliamentary legislation.

He also regards investor preferences as a problem, say-

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## ITALIAN INDUSTRY 7

## THE SOUTH

## Growth is inhibited

IN 1990, 20.5 million inhabitants live in the Mezzogiorno (38 per cent of the Italian population), more than in Greece and Portugal together. Their average income per head in 1989 was almost 30 per cent below the European average of 12 per cent. In northern Italy average income was 24 per cent above the European average, 10 per cent higher than in the Federal Republic and 15 per cent higher than in France.

However, the problem of the Mezzogiorno is no longer one of poverty or under-consumption since consumption levels, raised by transfers, are similar to those of an already affluent society. Average consumption per head in the 1980s was 15 per cent to 20 per cent higher than total national output, highlighting the problem of lack of marketable products, high levels of unemployment and a backward social and political structure. All of these inhibit the growth of a market economy.

In this respect, economic development in Mezzogiorno regions is a long-term issue, with deep-seated political connotations. Until now, public expenditure has been a panacea which has made the careers of a great many Italian local and national politicians. Their efforts to secure financial transfers to the Mezzogiorno through aid and public expenditure have

rarely been accompanied by the slightest intention of fostering the needed social and economic transformation.

Large national firms, private and public, have benefitted greatly from this flow of funds, through grants, subsidies or income from the supply of goods or services, with limited beneficial effects on the region. Industrial employment in the Mezzogiorno still amounts to only around 20 per cent of total employment, and has not increased since the mid-1970s. In a more or less closed economy, the Mezzogiorno was an easy captive market for firms located elsewhere in Italy. The question now is whether the single market will perpetuate this role for the Mezzogiorno.

Trade unions have succeeded in winning equal wage levels in southern industry since the 1960s, although industrial productivity was and still is well below the level in the north (20 per cent below in 1980). As a result, labour costs per unit of production in the south are on the whole no lower than those in the north, offering therefore no cost advantage to investors.

More recently, unions have strongly backed large wage increases for the public sector employees, who account for over 20 per cent of total employment in the south. Public administration impedes productivity growth and has an

unchallenged record of inefficiency and mismanagement of the resources transferred to the south.

As a result, the *blocco agrario* (agricultural bloc) - large and medium sized landowners, historically considered responsible for the backwardness of the mainly agrarian south in the first part of this century - has been replaced by an even more diffuse core of vested interests, linked to public expenditure and to the maintenance of the status quo - violently against industrialisation and private enterprise - and represented by those who administer public money and the others who are supported by it.

A recent study carried out by ISMERI into the public sector impact on disposable income of families in the south found that the average share of salaries from public administrations and social transfers added up to 33 per cent of their total income as opposed to 28 per cent in the north. Overall public expenditure (of central and local governments, including investment of state-owned

corporations) amounted to over 50 per cent of the Mezzogiorno gross domestic product during the 1980s and increased to 60 per cent in 1991.

To complete this gloomy picture, this flow of public money into areas with backward social and political structures and very high unemployment has nourished corruption and

### Professor Enrico Wolleb examines problems faced by the Mezzogiorno

criminality to such an extent that Sicily, Campania and Calabria are regarded as being ruled by the Mafia, Camorra and Ndrangheta, rather than by the state.

The contrast is striking between the social deterioration in the south and the indisputable successes of the Italian economy in the postwar period and especially in the 1980s. The highly positive response of companies to the structural problems which they face in

the north since the late 1980s, though strongly supported by public aid of various forms, made this region, one of the wealthiest and most dynamic areas of western Europe.

The private sector's strategy of decentralisation and subsequent expansion did not encompass the Mezzogiorno as a possible location. Public policy towards the Mezzogiorno was relegated to the political ghetto of *intervento straordinario* (special intervention) and did not relate to, nor influence, policies in the rest of the country.

The Mezzogiorno has become a service economy while, paradoxically, the level of public services and infrastructure remains low. Social and wage expectations, however, are such as to require the state to be expected to provide well paid jobs.

These patent contradictions lead to the conclusion that any explanation of the north-south divide cannot be based solely on economic grounds and that the failure of industrialisation stems, to a large extent, from a lack of political consensus and

a lack of determination.

Reform has to be directed at involving local administrators, employers and employees in a concerted effort. The flow of public money needs to be limited, justified in terms of objectives and made more transparent to the taxpayer. Capital grants and all measures involving administrative discretion should be abolished and automatic tax and social contribution concessions limited solely to the south.

Transfers such as artificial salaries for non-existent jobs, false pensions and financial support for uncompetitive firms and co-operatives or for specific social pressure groups - in agriculture as well as in industry - should be replaced by unemployment benefits paid as a right rather than as a personal favour.

Public firms should not be given unjustifiable priority in awarding public contracts, which results in small private firms being squeezed out.

Resistance to change is, however, enormous. Those politicians who understand the political and administrative nature of the blockage, assert that only a radical change of the electoral system with a parallel change in the ruling parties and their personnel, can ultimately change the forms of political consensus and the methods of public administration.

This brings us to the root of the problem: institutional reform is a necessary condition for seriously tackling those aspects of social underdevelopment which impede economic development.

However, there is a widespread suspicion that the political debate about reform hides a lack of ability to respond to problems here and now, or is a smokescreen to conceal the real unwillingness to change systems and methods which have assured 45 years of power for the same parties.

Things may, however, improve as a result of growing grass roots pressure for change. Economic and social reforms in the postwar period in Italy have always been preceded by strong social movements, as in the case of divorce, abortion and the creation of the welfare system. At the same time European economic and monetary unification may put an end to the Italian practice of running huge budget deficits putting an external constraint on public expenditure which would restrict the freedom of action of a discredited ruling class in the south and force the whole country to think seriously about Italian economic unification as well as European union.

A Sicilian by birth, Professor Wolleb is a consultant at ISMERI Europa, Rome.



Monteverde: development in the south is a long-term issue, with deep-seated political connotations

IF NUMBERS alone were the criterion for customer satisfaction, then Italian industrialists would be smiling. The directory of specialist financial advisers now active in Italy has swollen markedly in recent months.

Whether the growing band of merchant bankers, both Italian and foreign, have yet encountered the demand expected remains open. With many of this year's newcomers now having found premises and built up the small two to four man teams which have become typical, the focus is on results.

In the past 18 months alone Warburgs, Rothschilds, Baring and Schroders of the UK have formally established Italian operations. Credit Suisse, First Boston and Union Bank of Switzerland are planning to open Milan offices, while Merrill Lynch may also step up its Italian investment banking business.

Their names will join those such as Morgan Stanley and the big four Japanese banking houses which are already well-established in Italy. Meanwhile, Deutsche Bank is boost-

ing its corporate finance activities through Banca d'America e d'Italia and a number of big French banks are also becoming more active.

Samueli, the specialist mergers and acquisitions operation owned by Banque Nationale de Paris, set up its new Milan office in earlier this year. And last month Credit Lyonnais's *Chivest investment subsidiary* made its debut in the Italian market by taking a minority stake in a local company.

Some other houses are less conspicuous, but nonetheless active, in Italy. Shunning local offices, Goldman Sachs and Wasserstein Perella have hired Mr Romano Prodi and Mr Franco Reviglio, two heavy-weight former state industry heads, as their respective Italian advisers.

There is also no lack of domestic participants. Sanpaolo Finance, Sopaf, Akros and Sviluppo are some of the new Italian merchant banks set up after the country's investment banking business was liberalised in the mid-1980s.

All are touting for much the same business as the foreign-

ers, but what is there for them to do? At the moment, not as much as they would like.

Admittedly, not all the banks share the same priorities. Some bigger houses, and especially those which are prominent in the Euromarkets, are still probably concentrating on services for the country's biggest companies - notably in the public sector. Those not planning \$100m bond issues, multicurrency swaps or mega-acquisitions need not apply.

Others, including some of the UK merchant banks, Japanese brokers and possibly Morgan Stanley, are also seeking a more active role on the stock exchange. Already active in trading Italian shares at home, they are now looking for access to the Milan floor. Leading an initial public offering for an

Italian company in the home market would be their crowning ambition.

At present, any such aim is still stymied by the snail's pace of stockmarket reform in Italy. But the central plank of the long-awaited legislation, creating the framework for a new type of multi-purpose broker-

### Domestic banks are touting for the same business as foreigners

house, called a *Società di Intermediazione Mobiliare*, may pass through parliament before the end of the year.

In the meantime, many merchant banks, irrespective of their size, are concentrating on

strictly corporate finance work such as company advice and valuations, while striving to win M&A mandates. With much of Italian industry still fragmented by European standards, and many companies domestically orientated, foreign bankers claim they have an edge in M&A.

Italian companies need to expand abroad, making the contacts and know-how of a foreign bank particularly useful, they claim. And, with many big north European companies facing mature markets and limited growth potential, foreign interest in Italian acquisitions is also growing strongly.

Italian houses do not question the analysis, but they do put a different gloss on the advisory skills required. Thus the domestic operators tend to

emphasise the importance of their local know-how in response to the foreigners' claim to have the advantage in cross-border business.

Both groups have had ample opportunity to flex their muscles this year. In July, Baring clinched the £800m sale of Ceramica Dolomite, the bathroom sanitary ware manufacturer, to Blue Circle, the UK cement group. Some months earlier, Schroders was behind the sale of a 65 per cent stake in Cantieri Riva, the luxury powerboat maker, to Vickers.

Other banks have mined a rich vein in advisory services - notably valuations. Goldman Sachs and Morgan Stanley - along with Wertheim Schroder in New York - advised Eni and Montedison respectively in the Enimont joint venture. They may now

stand to double their money by providing the same functions in Enimont's divorce.

Meanwhile, Milan's new merchant bankers are hoping for new business from smaller Italian companies which are seeking additional funds or considering some form of buy-out.

UK houses have been particularly prominent in venture capital. Schroders' Italian Fund, which was the first of its kind, has £100m at its disposal from a variety of UK, US, Dutch and Japanese insurance companies and pension funds. Meanwhile, Rothschilds has established a \$30m Italian equity fund, with financing coming from European institutional investors, which have taken stakes of up to \$5m each.

Most recently, Baring Capital Investors, which has set up shop alongside the bank itself, and investors in industry (SI), the UK venture capital group, have set up Italian offices to offer their own services.

Demand for buy-outs remains limited, but is also rising. With the first generation of post-Second World War entrepreneurs now reaching

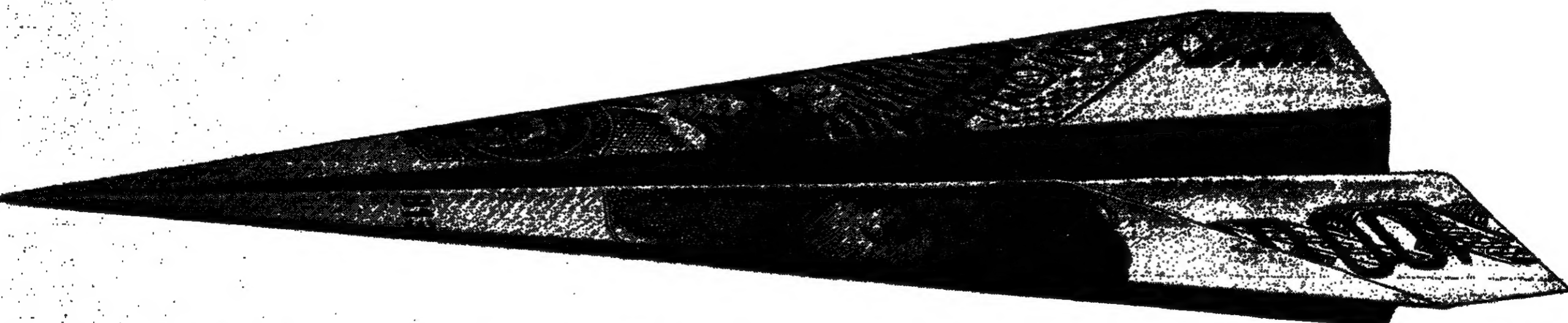
retirement or dying out and their heirs not always wanting to continue the business, interest in buy-outs should blossom, the bankers say.

There have already been a number of well-publicised deals. Schroders' sale of Cantieri Riva this year followed the financing of an earlier management buy-out by the bank's Italian Ventures Fund in 1988.

Meanwhile Sanpaolo Finance, the specialist merchant banking subsidiary of Istituto Bancario San Paolo di Torino, now Italy's biggest bank, organised one of the country's biggest leveraged transactions last June.

The £121bn deal involved the sale of Grove Italia, the Italian valve-making subsidiary of Canada's Nova Corporation, to an investment group headed by the bank and including Grove's existing management. Given the number of banks now offering such services, all must be hoping that many more such entrepreneurs come forward.

Haig Simonian



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## ITALIAN INDUSTRY 8

The country is now leading the way in helping to train Soviet managers, writes Sari Gilbert

## Schools and seminars teach the market

IN RECENT years Italian industry increasingly has been eyeing the Soviet Union as a potential business partner. As part of this process, two Italian institutes of research and higher learning have sought to get in on the ground level.

Although their strategies appear somewhat different, their goals are similar: to train Soviet and western managers to increase the exchange of information between West and East, and to foster better business relationships between Soviet and western firms and their executives.

The first to get off the ground in December 1988, was MIRBIS (Moscow International Business School), an Italian-Soviet joint venture founded by the Nomisma Institute for Economic Research in Bologna and the G. Plekhanov Soviet Institute of Economy in Moscow.

According to Professor Romano Prodi, a well-known Italian economist and MIRBIS governing board, the idea behind the school is "to act as an interface between two systems which for many years have confronted one another at a distance".

But, says Professor Prodi, who until last year was chairman of the giant Italian state holding company, IRI, activities of the school increasingly have been concentrated on the strategic objectives of vocational training for the country's managers and better understanding of the USSR system of administrative responsibilities.

The school which, because of an alternating governing system, has an Italian director and a Soviet deputy, plans to introduce a one-year MBA program for younger post-graduates in the near future and is looking for new western partners.

So far, however, the bulk of its activities have been short courses, of from four to 10 weeks, for Soviet mid-level managers. And most successful, says Professor Prodi, have been those specialised voca-

tional training courses whose participants "all speak the same language", such as that held last spring for managers of the Panosoviet Department of the Meteorological Instrument Industry.

## Vast cultural differences have had to be surmounted

Vocational courses given so far, all of which offer a final period of on-the-spot training in Italy, have included seminars for company directors, for financial directors of the Togliatti Autovaz group, for Soviet joint-venture head accountants, for managers of ten Soviet coal mines, for USSR Sberbank executives,

and for Ukrainian biomedical managers.

A recently-held course of instruction for savings bank managers was particularly successful. It led the Soviets to decide to set up an accounting school for bankers and Nomisma will be helping to train the new institutions' instructors in Italy and three other western European countries. Since August, 1989, Russian and western language courses have been offered on the school's Moscow premises.

Although the MIRBIS authorities are generally satisfied with progress so far, there have been difficulties. The Soviet joint-venture law is still in flux, making organisation and forecasts on present and future commitments extremely difficult.

Vast cultural differences have had to be surmounted, in training methods, educational

goals, curriculum and even day-to-day school administration. Courses have had to be revised. And since few Soviet managers know any foreign languages, teaching is also a problem, with non-Soviet faculty forced to speak through translators.

But this was all to be expected. "What we're doing is planting a seed," says Professor Prodi, "and everyone knows that that is hard work".

At the outset enormous cultural problems also faced the Leningrad International Management Institute (LIMI), a joint venture set up in July 1989 by the prestigious Bocconi University business school of Milan and the University of Leningrad, and which since has acquired additional European and Soviet partners: Holland's NMB Postbank group; ENI, the Italian state energy company; the Milan Exhibi-

tions Authority; SNAM, the Italian state engineering firm; the Soviet Institute for the Economy of the World Socialist System; and Zhylsotbank, the second largest bank in the USSR.

## Non-Soviet teachers are forced to speak through translators

Part of the Bocconi's overall strategy of internationalisation, LIMI's objectives are similar to that of MIRBIS: to develop a broad program of training for Soviet and international managers and businessmen, to carry out joint scientific research, to exchange information, provide consulting services, and to promote development and co-operation

between countries.

But, says LIMI's general director, Mr Angelo M. Cardani, "our overall strategy is that of qualifying ourselves as a bonafide centre of academic learning". Since its inauguration late last year, LIMI has provided a series of seminars of up to six weeks on marketing, financing and regulation of foreign trade activity.

Targeted at managers from various branches of Soviet industry, mostly from the Leningrad area and the Baltic Republics and, less frequently, at western business operators, the courses held so far include: customs regulations; internal market activity; doing business with the Soviet Union; financing external economic activity; strategy for entering into the free market area; business English; western accounting principles for Soviet firms;

managing cross cultural differences and doing business in the USSR.

Such seminars, largely technical in nature, are considered an important and useful activity of the business school, forging contacts with the outside business world. However, LIMI's long-term objective is more ambitious and more difficult: the creation of a full MBA program, aimed at both westerners and Soviets with an international outlook, that can boast an experienced and prestigious international teaching staff.

LIMI officials say setting up the MBA program will require considerable preparation and time. "In the seminars you are passing on technical information; in an MBA you seek to transmit an entire business Weltanschauung, not at all an easy matter when we don't even know how far liberalisation in the USSR will go," says Mr Cardani.

"We need to study the situation," he says. "What set of values will they and we with? And think how hard it is to teach marketing when you don't even know the structure of the market."

## EASTERN EUROPE

## Italy's entrepreneurs move in swiftly to examine the market

AS ONE of the world's leading, and most nimble-footed, exporting nations, it is no surprise to find Italy's entrepreneurs among the first to examine the new opportunities in eastern Europe and the Soviet Union since last year's political changes.

But the Italians have been present in these parts of the world longer than many realise. Big insurers such as Generali and Rinnione Adriatica di Sicurtà (RAS) were among the market leaders in countries such as Czechoslovakia and Hungary between the two World Wars.

Despite their subsequent ejection, Mr Umberto Zanni, the RAS chairman, still perceives an undercurrent of goodwill, particularly among the older generation.

More recently, it has been Fiat which has been the standard-bearer for Italian business in eastern Europe. Following a string of deals negotiated since the mid-1960s, the cars group has gained unparalleled access in a number of east European markets.

According to Fiat, more than half the 2m cars made annually in eastern Europe and the Soviet Union derive from its products. Even when the Lada, Yugo and FSOs concerned are not direct copies of former Fiat models, they betray the Italian group's mechanical under their skins.

Fiat has recently consolidated its position in the East with a massive deal to revitalise the Soviet Union's auto industry at a new industrial complex at Yelabuga.

Having already won contracts for two of the project's three planned stages of 300,000 cars a year each, it is now poised to make the last trick.

industrial ventures in eastern Europe and the Soviet Union stem from IRI group companies. Heavy engineering and plant technology producers are most prominent among the divisions of Italy's giant state holding concern to have won big contracts in the East.

## Flat has been the standard-bearer for Italian business in eastern Europe

But IRI's telecommunications, energy and aviation electronics subsidiaries have also scored. Meanwhile, companies in the ENI energy group played an important role in building pumping stations for the Siberian gas pipeline.

Although most of Italy's other entrepreneurial exploits in eastern Europe have been appreciably smaller, they have often received considerable publicity thanks to their origins in high-profile businesses such as textiles and fashion.

Stefanel, the clothing group based in the Veneto region of north east Italy, first set up shop in Czechoslovakia three years ago. Since then it has expanded into Hungary. Its

## Mr Benetton has stressed the importance of local production

Budapest store, which opened last April, is the first of 10 Hungarian outlets which are scheduled to start trading before the end of this year.

Stefanel's bigger rival Benetton is already represented in

Hungary, Czechoslovakia, East Germany and Poland. But the biggest boost for Mr Luciano Benetton, the group's chief executive, came earlier this month with the signing of a long-awaited clothing joint venture with the Soviet authorities.

Mr Benetton has stressed that the importance of local production if any foreign clothing group is to make a real impact on local markets in eastern Europe and the Soviet Union. Just having a limited number of stores, selling in either hard or even local currency, "has no future", he says.

With the contracts for his manufacturing joint venture now sealed, Mr Benetton is basking. But even he has plentiful recollections of the delays and frustrations of doing business behind the former Iron Curtain.

Mr Carlo De Benedetti, the industrialist best known for his chairmanship of the Olivetti computers group, is even more sceptical towards the new markets opening up in eastern Europe and the Soviet Union. While bullish for prospects in the former German Democratic Republic as part of a now-united Germany, he thinks the shift to a market economy will be a long slog in Hungary and Czechoslovakia. Meanwhile, prospects in Poland and the Soviet Union are bleaker still, he argues.

Mr De Benedetti is not averse to playing the pessimist, and is patently not putting any of his own money into eastern Europe at present. But although his current downbeat views put him at odds with many of his counterparts in Italian industry, he has been right in the past.

Haig Simonian

## Fata enters the arena of perishable foods

## Joint venture under way

ground in an attempt to create a highly specialised satellite manufacturing system.

Two other western partners share a 30 per cent stake in Sajanal, the Turin bank Istituto Bancario San Paolo di Torino and the large US group Reynolds Metals. Sajanal's factory, located in central Siberia, will make aluminium foil and packaging for the food and pharmaceutical industries. The factory is expected to become operational in 1992.

Fata is transferring up-to-date technology in turn-key projects that start with preliminary study and design and run through feasibility study, executive design, equipment supply and installation to personnel training and initial plant management and operation.

Food processing is the sector in which the company is now most active. It lays claim to a record in the technical and managerial training of personnel in the ultra high temperature process for long life milk preservation.

In addition it has worked extensively in cold and deep freeze storage, in slaughtering

and meat preservation and the design and engineering of many other food processing operations.

While Fata's emphasis today is on the food sector, it is not lowering the importance with which it regards other areas of factory automation. Indeed as the Ros-Ital and Sajanal Soviet joint ventures show, non-food sectors are of great significance. For the Sajanal project Fata will be supplying all machinery and plant, wholly Italian-built, to a value of 1,000m. The figure at Ros-Ital is 1,600m.

Fata sells expertise to diverse industries and in many applications. Materials handling, automated guided vehicles, storage and retrieval systems, welding systems, welding systems, and technology for dies, aluminium casting and foundries give Fata an engineering breadth.

Although the company's head offices are in Turin, which is also the site of its research and development centre, its food division is located in Parma, an important food processing centre where the

large Cibus food fair is held, and there are foreign subsidiaries.

About 85 per cent of last year's 1,500m turnover was recorded outside Italy. The biggest market was Europe which, excluding former Eastern Bloc countries, accounted for 45 per cent of the total.

Second in the company's export rankings was the Soviet Union, which alone generated 25 per cent of sales and underlined the importance of a relationship that dates back to 1988. "Fata has always believed in the development of East European countries and particularly the Soviet Union, and Group policy will continue in this direction," says the company.

Doing business with eastern Europe has contributed significantly to turnover, growth of about 80 per cent in the five years since the 1,350m was recorded in 1985, and to an order book that presently stands at about 1,400m. But the company is reticent about its profits.

However, profitability would certainly have been a matter of

interest to Fata European Group's bankers, and to merchant banks San Paolo Finance and Cofilo, over the past two years. Company management initiated a 1,400m buy-out two years ago, and in September Sweden's Tetra Pak acquired a 10 per cent stake in Fata's equity.

Behind the MBO was the purchase of Babcock International by another British company, W.K.I. in 1987 and the widely mentioned decision of the new owners to dispose of Fata European Group. The MBO operation completed this year sees the group, whose history dates back to 1934, return to Italian ownership after 18 years in foreign hands. In 1972 it became part of the US Acco corporation, itself subsequently acquired by Babcock in 1976.

Following the Tetra Pak operation, which included agreement on the joint development of activities in the agri-food and packaging sectors, merchant banks hold 14 per cent of Fata European Group's equity. Reynolds International holds 10 per cent and other industrial partners 20 per cent. With 25 per cent, Fata's management hold the same amount of equity as the Finmeccanica sub-holding of the IRI state holding corporation.

David Lane

## SEGAFREDO ZANETTI

## Small businesses prepare for future in united Europe

WITH 1993 approaching, many Italian industrialists are convinced that "big is beautiful". But small can also be lovely.

Segafredo Zanetti, the Italian coffee maker and food producer is one of those smaller, more rare Italian companies that over the past several years has been preparing actively - and successfully - for the new European single market.

"There's nothing frightening about 1993," says Mr Massimo Zanetti, chief executive officer and owner of Segafredo, which with total revenues of 1,394bn turned up 100th on a recent site listing published by the Italian weekly, Mondo Econom-

of the largely conglomerate-dominated European market.

Mr Zanetti, 62, who comes from a family of coffee importers, in 1973 bought Segafredo, a small, local Bologna-based coffee company from its previous owners. Establishing an innovative and active marketing policy stressing "quality and service" (the company's slogan), he gradually established a nationwide sales network.

The next step was diversification. Today Segafredo, which is totally self-financing, produces some 60 products ranging from various roasts and blends of coffee (espresso, bone espresso, decaffeinated, filter), and professional espresso machines, to powdered beverages (instant tea and coffee, cocoa, chicory and barley coffee) and sweets such as chocolates, tortones, pudding and panettoni cakes.

Next came the acquisitions abroad, including Vandour-Damon, the third-largest coffee producer in France. And more recently, Mr Zanetti inaugurated a series of franchised Segafredo "coffee-boutiques" (those opened so far include Rouen, Bordeaux, Nantes, Lille, Paris and Vienna) through which he plans to export "Italy's coffee culture".

With profits last year of over 14bn, high profitability and liquidity, and a moderate level of indebtedness, Mr Zanetti has every reason to feel satisfied.

One problem is the decline

in world commodity prices, "which keeps sales values from growing", while other costs at home continue to grow. Fortunately, coffee production is capital, not labour, intensive, and with only 700 employees in Italy, Mr Zanetti is less affected than other Italian entrepreneurs by rising wage costs.

But he would like to see fur-

## Mr Zanetti is confident he can still expand

ther expansion, particularly in the Italian grocery sector. When it comes to family coffee consumption, at present Segafredo, with 6 per cent of the Italian market, is only third,

lagging behind Lavazza, the large Italian independent Italian coffee-maker, and Splendid Coffee, a subsidiary of Procter and Gamble.

"It won't be easy," he admits. Coffee consumption is generally highly habitual and thus static. This means that generally there are only two ways to increase one's market share: through massive advertising investments or partnerships with (or acquisitions of) small, local companies. "We are involved in various negotiations," says Mr Zanetti.

What about the challenges from the conglomerates in an area - food and food processing - which in recent years has shown a strong tendency towards concentration? "In general the big shifts have already taken place," says Mr Zanetti.



Massimo Zanetti

Mr Zanetti appears confident that he can continue expansion, both inside Italy and abroad, without losing his independence. But he does not rule out the possibility of taking his company public. Some time in the not so near future the company might even be listed on the Milan stock exchange, so that minority participations could be sold.

"But," he says, hinting at the future possibility of a major acquisition, "it would have to be something really special".

Sari Gilbert

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## Segafredo produces some 60 items

Segafredo, which with some 30,000 customers is the number-one coffee supplier to Italian cafes, bars and restaurants, is well positioned for the new Europe.

Today, 60 per cent of its revenues come from foreign sales to Europe, North America, Australia and Taiwan. And in the mid-eighties the company began a series of acquisitions in Europe (France, Portugal, Spain and, more recently, Germany - that have helped win it a 4 per cent share

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## ITALIAN INDUSTRY 9

## ENIMONT

## Bold hopes fade fast

IRRESPECTIVE OF who owns Enimont, the Italian chemicals joint venture which has left a trail of virtual bankruptcy and public-sector co-owners, all are agreed on one theme. The group urgently needs to restructure its activities if it is ever to realise the bold hopes set out in its founding business plan.

Enimont's woes fall into two categories: short-term problems dictated by the current downturn in chemicals demand and overcapacity; and long-term structural ills based on a lopsided business mix.

The group's short-term difficulties have been exacerbated by the rise in oil prices following the Gulf crisis, which has in turn triggered a run on certain key primary materials like virgin naphtha. In early August, Mr Sergio Cagnotti, Enimont's chief executive, warned that the invasion of Kuwait was adding 150-200m a month in new material costs.

Earnings for the first half of this year testified to the depth of its current troubles. Net profit tumbled to 1,131m from 1,819m in the corresponding period last year, while sales fell by 12 per cent to 14,196m. Some 2,000 temporary lay-offs have already been announced, more may be to come.

In the longer term, Enimont, which is the world's ninth biggest chemicals group, needs to follow the example of some of its larger rivals and revise its product portfolio. The company needs to reduce its vulnerability to falling demand and increasing competition in some commodity chemicals by developing higher-value non-commodity parts of the business like drugs, agrochemicals, and engineering plastics.

On a European basis, Enimont is currently the third biggest producer of fertilisers, one of the sectors worst hit by

overcapacity and low prices; the biggest producer of acrylic fibres; and the second largest maker of bulk plastics. Moreover, it is one of the largest manufacturers of ethylene, the bulk chemical used as the main component for many other types of synthetic materials. While Enimont must lower its exposure in these areas, it must also develop its activities in higher-margin activities, such as certain engineering plastics, PET plastics for packaging, and fine chemicals, where it is already present.

Enimont must also become much more international. The

### Short-term difficulties have been exacerbated by rising oil prices

company currently derives around 55 per cent of its sales from its home market, against around 25 per cent for the big three German chemicals groups and Imperial Chemical Industries. And it is particularly weak in the far east, which is expected to account for much of the growth in chemicals demand in the 1990s.

Moreover, while other manufacturers have shifted products, as well as sales, abroad, Enimont still makes about 80 per cent of its output in Italy, sometimes using distinctly antiquated plants.

But it is too early to write the company off. Mr Cagnotti admitted partiality, but said of a concern that could still be the envy of the world. Mr Giorgio Porta, the Ferruzzi executive who has just been elected chairman of the European Petrochemicals Federation, thinks that, with the right mix of asset sales, swaps and joint ventures, it could become

much more competitive.

Some steps have already been taken. So far this year, Enimont has sold its majority stake in Auschem, a subsidiary making chemicals for the textiles and other industries, and Scavo, its pharmaceuticals operation.

Further disposals may follow. The Belco subsidiary may be up for sale, along with some of Enimont's refining capacity. And it has confirmed discussions are taking place with Fertilizantes Espanoles of Spain on possible co-operation in fertilisers.

Attempts at acquisitions have proved less successful. Enimont's bid to buy the Polysar rubber division of Canada's Nova Corporation, foreshadowed publicly by Mr Cagnotti in May, proved disastrously embarrassing just days later when the company was plucked by Bayer at the post. However, such deals are just part of what is required for Enimont to begin realising the potential which its minority shareholders, who hold the 20 per cent of its equity listed on the market, were led to expect when the company was launched. So far, they have been bitterly disappointed.

Haig Simonian

Gestioni e Partecipazioni Industriali (GEPI) will celebrate its twentieth birthday next year. Since its establishment by state-owned investment bank DMI, which has 50 per cent of share capital, and state holding corporations IRI, ENI and EFIM which have equal stakes in the remaining equity, GEPI has coined a new word.

GEPI-isation means the state hospitalisation of terminally sick manufacturing companies. Originally conceived as Italy's industrial lifeboat, on call to prevent companies from sinking and for re-launching them after rescue, Rome-based GEPI came to be considered more like a corporate morgue.

It was conceived when Italy's post-war economic miracle was starting to flag, and the first shadows of crisis were appearing. "Its support aimed at job protection, corporate turnaround and the return of companies to private ownership and the market," says Mr Benedetto De Cesaris, GEPI's chairman.

Mr De Cesaris admits that many companies have reached GEPI in conditions that are beyond resuscitation. Politics has often been dominant among the factors determining GEPI's intervention, with powerful politicians rather than industrial logic calling the shots.

Nevertheless, Mr De Cesaris can point to some successes, a total of 206 companies having been turned round and returned to private ownership since GEPI's inception. Last year it was able to transfer 21

## GEPI

## Industrial lifeboat is seen as a graveyard

Gestioni e Partecipazioni Industriali in figures				
Unit: billion lire	1986	1987	1988	1989
Finance supplied to companies	453	526	410	454
State Funding	210	210	220	210
Self financing	300	320	245	272
Deficit from investments	222	215	232	203
GEPI's net loss	193	187	185	185

Source: GEPI accounts

companies from its books to other owners.

Though GEPI's sphere of action was initially nationwide, in 1977 parliament decided that new interventions should be limited to the south. "GEPI has progressively disengaged from investments in the north," says Mr De Cesaris.

However, he admits that there have been occasions since 1977 when the corporation has been called to aid northern companies.

Mr De Cesaris notes that operating Italy's Mezzogiorno presents problems. "Often conditions do not exist for turnaround. Massive innovation and a wholly new business approach are required. Workforces are too large, but alternative employment is not

available. Local social forces and heavy political pressure

aim at job protection," he says. GEPI has attempted to create a framework for resolving its difficulties by placing its investments in two categories. Companies in the first have

### Many companies have reached GEPI in conditions beyond help

real turnaround potential while those in the second are terminal cases where the objective is labour re-use. In the second case, management of cassa integrazione guadagni, the labour lay-off fund, is the main

role.

At the end of last year there were 23,000 workers in 65 companies benefitting from the fund, against 11,000 employed in 99 manufacturing and 17 service companies where turnaround is expected. About 50 per cent of GEPI's total payroll is in the Mezzogiorno.

"We have recently prepared a new strategy, in which we emphasise that industrial considerations are paramount. GEPI should not have a function in implementing labour policy," says Mr De Cesaris. Key points of the strategy include:

- respect for the principle of proper use of funds
- continuing emphasis on small and medium sized companies

- avoidance of no-hopers
- creation of employment opportunities
- greater emphasis on active role rather than passive

Noting that southern productivity is lower than elsewhere, Mr De Cesaris says that labour contracts should reflect this. He considers that the difficulties of large manufacturing companies in the Mezzogiorno underline the need for GEPI to encourage small service firms.

"The corporation has considerable experience of working in partnership. Of our 99 operational manufacturing firms at the end of last year, 53 were investments in partnership with third parties," adds Mr De Cesaris. He believes that this gives GEPI, which uses outside consultants extensively in temporary management positions in companies where it intervenes, real awareness of the private sector.

The large number of privatisations undertaken has also provided contact. In contrast to IRI, ENI and EFIM, GEPI has not encountered political difficulties in privatisation operations.

Privatisation operations have generated part of the funds needed for financing interventions, which last year absorbed 1,454m. State funding of 1,210m in 1989 helped cover GEPI's net loss of 1,855m that arose from its own operating expenses of 1,400m and an aggregate deficit of 1,303m among its investments. Running a lifeboat operation does not come cheaply.

David Lane

## SHIPBUILDING

## Orders strong for the present

THERE WAS a large measure of pride at Italy's state-owned shipbuilder, Fincantieri, when the luxury cruise liner, *Crown Princess*, was handed over to British P&O group at Trieste's Stazione Marittima at the end of June. The gleaming white vessel with its sleek, futuristic lines represents a triumph for Italian shipbuilding.

The *Crown Princess* project started six years ago, although hull number 5899 was not laid down at Fincantieri's Monfalcone yard near Trieste until June 1988. Building the 70,000-gross-tonne liner, which with high technological sophistication and comfort accommodation carries 1,700 passengers and is manned by a crew of nearly 700, was worth 1,500m to the Italian shipbuilder. And a sister ship, the *Regal Princess*, which will be delivered in spring next year, is worth a similar amount.

With the two P&O vessels and an order book that includes two cruise liners for the Italian line Costa Crociere

and three for Carnival Cruises of the USA, Fincantieri has the world's largest portfolio in the sector. The company says that this healthy situation has historical basis in the reputation that Italian yards have enjoyed for designing and building fast, elegant passenger liners since the beginning of the century.

### Few expect today's high level of building activity to continue

However, much has happened since the heyday of Italian shipbuilding and few expect today's high level of orders and building activity to continue. Nevertheless Fincantieri now has an order book totalling 1,800m which is almost four times the value at the end of 1988.

Representing about one half of shipbuilding activity in Italy, Fincantieri is a thermometer for the industry as a whole. Indeed, other yards in the private sector, are also benefiting from improved market conditions. In reporting on 1989, the association of Italian shipbuilders, Assonave, was able to be more bullish than for many years.

"Production of just over 900,000 gross tonnes in 1989 at last allowed a generalised, satisfactory utilisation of productive capacity," wrote Assonave's chairman Mr Enrico Bocchini. He noted a good flow of orders in addition to the 580,000 gross tonnes that were received at the end of 1988 after two years of famine.

"The upturn in world shipping has at last been reflected in the shipbuilding sector,"

said Mr Bocchini. But Italian shipyards also owe a debt to the approval in June last year of Law 234 for assisting shipbuilding.

The effects of the legislation have not, however, been wholly positive. Mr Bocchini says that there have been problems in its application, particularly in determining the capacity and the production of each yard that should be recognised for assistance.

Moreover, Law 234 attracted critical attention from Brussels and the initiation of action against Italy by the EC Commission, concerned about violation of competition policy. Mr Bocchini stressed that the issue must be wrapped up urgently so that Law 234 can be implemented. "It will only then be possible to take practical steps in determining the financial contributions, particularly those regarding new construction orders."

Meanwhile, Italian shipbuilders have been viewing Law 234 as an opportunity to compensate for recent bleak years. Mr Bocchini noted that severe self-criticism is called for. "Law 234 has generated expectations in not a few members that seem wholly incompatible with existing production capacity and in contradiction with the spirit of the law itself."

Assonave's chairman emphasises that national plans for the sector, EC decisions and indications in Law 234 not only seek to avoid capacity increases but also aim at further rationalisation. He underlines the need for the government to provide the financial cover necessary for the early retirement of about 5,000 workers over 50.

Overall, Italian shipbuilding presents a contrasting picture. The sector is exploiting the current positive situation, but few would bet on finding fair conditions over the horizon. In the sector none provides a better example of light and shade than Fincantieri.

While the state corporation is sailing steadily ahead with building merchant ships, its military division is navigating in a full-blown financial and legal storm. The \$3,600m Iraqi order signed in February 1989 has widened the hole in Fincantieri's accounts.

Only two corvettes and a support vessel have been delivered. But the corvettes have been blocked for years in La Spezia and the support vessel travelled no further than Alexandria. With a further four corvettes and four frigates built but not delivered, and also lying at La Spezia, and with half of the contract price received, the company risks a lawsuit. Fincantieri certainly needs its Crown and Regal Princesses to compensate for the *Abdulla Ben Abi Sara* and the rest of the Iraqi fleet.

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## ITALIAN INDUSTRY 10

## SETTING UP IN BUSINESS

## The hurdles remain

LIFE CAN be tough for the new or growing company in Italy. Despite a plethora of specialist advisers and banks which have sprung up in recent years, budding entrepreneurs still complain of a system that often seems more inclined to smother rather than spearhead the nascent business.

Some of the problems, such as poor public services or the inordinate amounts of red tape that have to be surmounted in setting up a company, are peculiar to Italy. Others, like limited access to venture capital and unsympathetic bankers, are familiar obstacles from elsewhere in Europe too. But, taken together, the combination can create an atmosphere which makes starting a new business unappealing in Italy.

Most entrepreneurs need little prompting to launch into a trade against Italy's public-sector inefficiencies. An atrocious postal service, unreliable rail and air links and a telephone system that is only now beginning to benefit from the fruits of long-overdue investment are just some of their bugbears.

Mr Mario Possati, the chairman of Marpos, a big family-owned business which makes sophisticated measuring equipment for machine tools, is one entrepreneur whose business has grown from tiny roots in the late 1950s to a world-class concern.

Based near Bologna, Marpos exported almost 90 per cent of its L105bn parent company sales last year and is a world leader in its field. However, Mr Possati needs little prompting to recount some of the problems he faced, few of which have changed today, he thinks.

Banks were unsympathetic for a start. "There was an absolute lack of a banking mentality which understood the needs of a company which was growing. The banks here were exactly the opposite of what they should have been," he said.

Although there have been improvements on the financial side, many of the public-sector barriers, notably regarding infrastructure, remain. "The plane which doesn't leave, the train which is late are all types of costs for an Italian busi-

ness," says Mr Possati.

But whatever the problems with Italy's public-sector companies and services, it is bureaucratic barriers which are the biggest obstacle to a budding Italian entrepreneur today. Just setting up a company can be an endurance test. Whereas a UK limited company can be created in a matter of hours, the process is far more complicated in Italy.

It takes around two months for the local tribunal to give the new enterprise its all-important *omologazione* - registration. Without it, the pro-

**Bureaucratic barriers are the biggest obstacle to the entrepreneur**

spective entrepreneur is powerless. Bank accounts cannot be opened; assets cannot be bought; even stationery cannot be printed, as it has to carry the new company's registration number.

Detailed information has to be submitted regarding a new company's directors and owners as part of the registration process, all of which has to be authenticated by a public notary. Rather than the more complex form of a *Società per Azioni* (SpA), akin to a public limited company in the UK, most small businesses in Italy opt for the status of a *Società a responsabilità limitata* (Srl) - roughly corresponding to a limited company in the UK.

SpAs require a minimum share capital of L50bn, while Srls need only L2bn. Moreover, any Srl with less than L100m in share capital does not need to appoint a board of statutory auditors, meaning that it faces much less onerous reporting requirements.

Foreigners in particular can be surprised by some of the other practical problems that can impede getting a new company off the ground. Manufacturers tend only to work to order rather than holding large stocks, meaning that office furniture usually takes around six weeks to deliver. And telephone installations can be a nightmare, with a high chance of delays and confusions. Even fax and data connections,

although much more commonplace now, can require considerable patience.

Local chambers of commerce can provide some assistance, while the large number of industry federations and trade associations can also be sources of market-related advice.

Access to public-sector financial help is more tricky. State grants, involving a mixture of social concession and financial incentives, tend to be limited to the Mezzogiorno region of southern Italy. Although certain types of financial assistance are also available in the north, they are restricted to delineated areas of economic difficulty, such as the mountain regions of Lombardy and the Alto Adige.

Even when the new company is set up, the bureaucracy does not end there. For all its reputation as a free-wheeling economy where individualists thrive, Italian executives have to cut their way through a maze of red tape. Many of the requirements stem from successive attempts to reduce tax evasion.

But the result can sometimes be to create a web of highly complex paperwork. "Italian accounting is incredibly detailed, particularly when it comes to dealing with the expenses that can be set against tax," says Ms Wendy Rimmington, the head of Penguin Italia, the Italian subsidiary of the UK publishing group.

For example, special types of forms have to be completed when it comes to buying petrol for company cars, or entertaining at the company's expense. An office even has to keep a formal register of where its employees are at any given time. It is no surprise that many big companies produce their own "nota spese" - the in-house "bible" on how to deal with expense claims, which they distribute to all employees likely to be affected.

Ms Rimmington, who recalls having to set aside a whole day to try and master the regulations with the office accountants, reckons the system has at least one advantage. "From the company's point of view, it's wonderful, as it means expense claims are foolproof."

Haig Simonian

## Italy's first anti-trust law will loosen grip of public and private industrial power

"THIS IS my child and I am very proud of it," says Mr Roberto Cassola, the Italian senator who has devoted much of the last two years of his life to supervising the parliament's tortuous delivery of Italy's first ever anti-trust law.

A 49-year-old Roman, Mr Cassola is an unusual phenomenon in Italy. He is a modern, reformist Socialist, but there are others claiming similar credentials. What sets him apart, however, is a readiness to work hard at the grindingly difficult process of legislating, rather than posturing in favour of change.

As chairman of the Senate's industry committee, he began the process of trying to nudge Italy towards a competition law by launching investigative hearings on the subject more than three years ago.

The results encouraged the government of the day to present its own draft law just under a year later which Mr Cassola's committee then considered alongside a private initiative by his fellow senator, Mr Guido Rossi of the Independent Left.

The final version which cleared the parliament at the end of September had been substantially changed from the original drafts, not least because the new law also contains strict limitations on the freedom of private industrial companies to acquire stakes in credit institutions.

There is no clear logical reason why such inhibitions should appear in an anti-trust law, but most politicians and the Bank of Italy wanted it that way. "The importance of this law is that it is a vital step towards making Italian capitalism more transparent," says Mr Cassola.

This was an almost heretical objective three years ago when only a small minority of politicians were ready to put their heads above the parapet and argue that the public interest needed defending against both public and private industrial power in Italy.

The furrow is in the grip of the main political parties for whom correct behaviour in the market place is of secondary importance to their control of patronage and finance through public sector companies. The latter is still dominated by that small oligarchy of entrepreneurial padrones whose wheeling and dealing is frequently inspired, financed and legitimised by Mediobanca, the Milanese merchant bank whose

strongest gesture in the direction of transparency is the small brass name plate on its front door.

Italy is thus left with an industrial economy dominated by public and private conglomerates. They frequently enjoy cosy relationships with banks, have a taste for controlling insurance companies and ownership of newspapers and magazines.

It is unlikely that the new anti-trust law which should come into force around the turn of the year, will quickly alter this profile of industrial power in Italy. But it does offer

consumers and smaller businesses the opportunity to seek redress against abuses of dominant market positions and some protection to society as a whole against the corporate tendency to seek easy gain through acquisitions which stifle competition.

Industry itself eventually dropped its early opposition to regulatory legislation once it was persuaded that certain safeguards were being created against political, and therefore discriminatory, manipulation of the law. The main bulwark against this danger in Italy is to be an independent Guar-

antee Authority whose members will be nominated by the president of the two houses of parliament, rather than by the government.

No reliable estimates are available of how many mergers and takeovers the authority may be required to examine. But the thresholds set by the law - L500bn domestic sales resulting from a merger and any takeover of a company with a turnover of more than L500m - suggests that the volume could be high.

Industry's resigned acceptance of the law was also encouraged by the realisation

that without an anti-trust law of its own, the Italian position in the European Community would be foolish rather than just anomalous.

The EC has fully armed itself with new procedures and regulations for enforcing competition in the single market, and Italy clearly had a responsibility to provide supporting regulation in its own national territory.

According to Mr Cassola, it is also capable of flexibility and dynamism. "Since we are facing a future of enormous changes, we have not sought to impose tight restrictions on the application of the law. Rather, we have created an authoritative structure with discretionary powers."

John Wyles

## Curbing cartels

## The scope of the new law

The law applies to both state-owned and private companies and seeks to outlaw both agreements which restrict free competition and abuses of dominant position. It also subjects all mergers above a certain threshold to scrutiny for their impact on competition.

● **Restrictive agreements.** All agreements which consistently aim at "restricting, impeding or falsifying" competition in the domestic market are forbidden. Such agreements may involve price fixing, production limits, investment or technological developments as well as market sharing or supply sharing, and discriminatory treatment of third parties providing equivalent services.

● **Abuse of dominant position.** It is forbidden to impose directly or indirectly purchase and sale prices which are "unjustly burdensome" to damage consumers by limiting production, market access or technological developments, and to discriminate against third parties supplying equivalent services.

● **Concentrations.** Concentration takes place when two or more companies merge, when one or more subjects in control of one company acquire control of another by one means or another, and also through

the establishment of a joint venture. Co-operation between independent companies is not regarded as concentration nor is temporary acquisition of control by credit institutions for a period of less than 24 months.

● **Control is defined as the ability to have "a determining influence" on a company's activities through ownership of property or capital, or on the composition of its decision-making bodies.**

● **The Guarantee Authority.** The authority "will work with full autonomy and independence of judgement" and will be a collegial body made up of a president and four other members. They will be nominated by the presidents of the two houses of parliament.

The president is to be a person of "known independence" who has previously occupied institutional positions of "great responsibility and importance".

His four colleagues will be also of known independence and chosen from magistrates sitting on the Council of State, from the Court of Accounts and the Court of Cassation, university professors of economy and law and people of recognised professionalism from an economic background.

The members will be appointed for seven years and cannot be reappointed.

● **Notifying Concentrations.** All concentrations which create a company with national sales exceeding L500bn or a takeover of a company with national sales above L500m must be notified to the authority. These values will be raised annually in line with the price deflator of gross domestic product.

● **If the authority judges that the concentration may be harmful.** It must open an investigation within 30 days. It must then issue its judgement within 45 days which can be extended for another 30 days if companies have not supplied all information at their disposal.

The authority can order a concentration to be suspended during the period of its investigation. If it concludes that a concentration is anti-competitive, it can forbid its completion.

● **If this order is ignored,** sanctions can amount to between one and 10 per cent of the sales of the company which is the object of the concentration.

Failure to observe the notification requirements could trigger sanctions of up to 1 per cent of the offending company's previous year's sales.

● **Government powers on concentration issues.** The government will determine "in a general way" the criteria by which the authority can in an excep-

tional situation authorise a concentration which breaches the law. In such a circumstance considerations of the national economic interest in the context of European integration should apply.

● **Investment in credit institutions.** All investments leading to a capital stake above 5 per cent or leading to control of the institution must be authorised by the Bank of Italy.

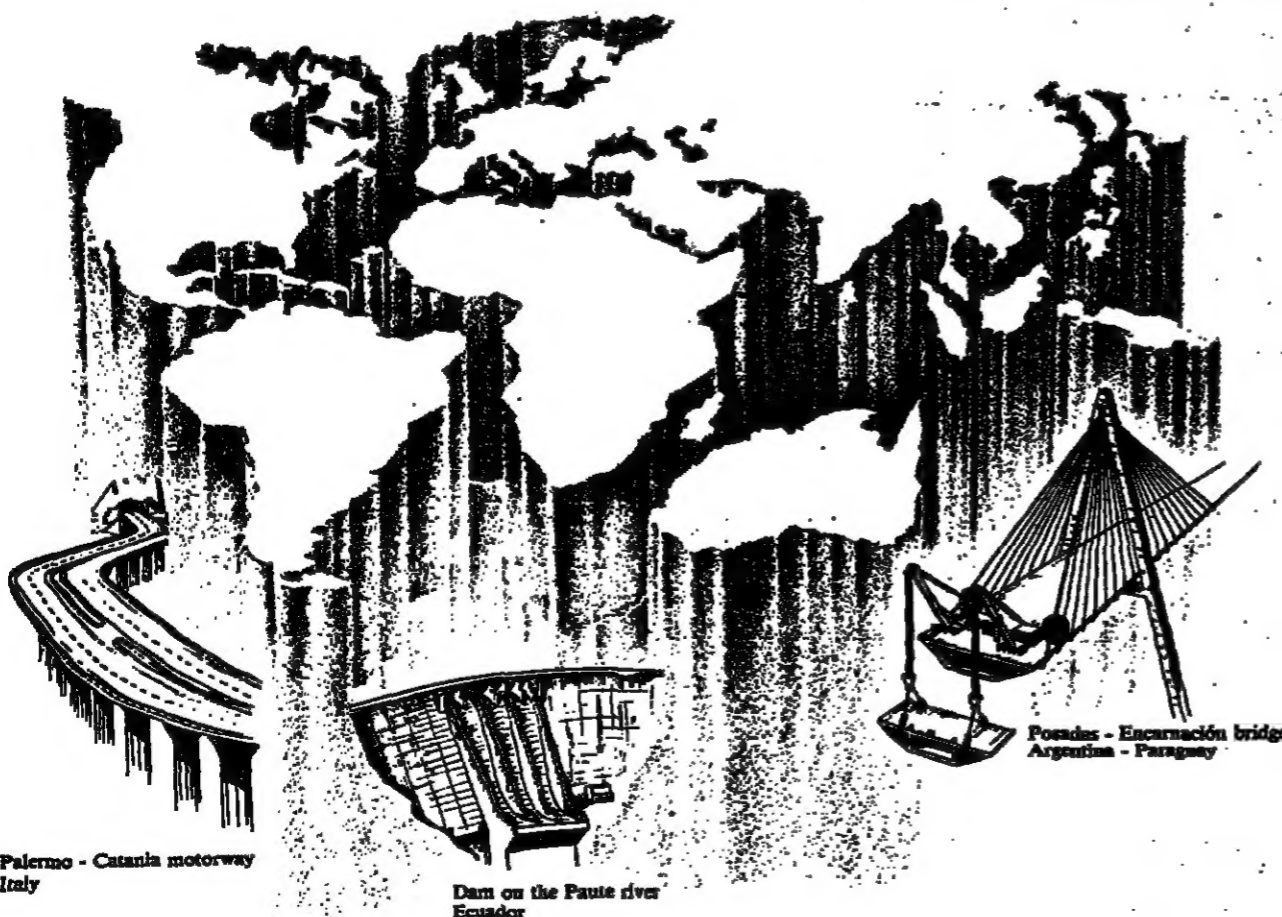
Each additional holding above 5 per cent must also be authorised by the central bank subject to a maximum permitted holding of 15 per cent by any entity which is not also a credit institution. One or more investors participating in a voting syndicate shall be judged to be in control if they own more than a quarter of the ordinary shares.

Existing stakes of more than 1 per cent must be notified to the Bank of Italy within 60 days of the law coming into force. Stakes above 5 per cent, or those which yield a position of control may be considered authorised if the central bank has not ruled otherwise within 180 days of notification.

Existing holdings by public bodies may consider themselves authorised. The interministerial committee for credit and savings will determine the criteria for permitting, suspending or revoking the central bank's authorisations.

John Wyles

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